

Audit Report

Berrien County Health Department
Family Planning Program

October 1, 2009 – September 30, 2010



Office of Audit
Quality Assurance and Review Section
July 2011



RICK SNYDER
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF COMMUNITY HEALTH
OFFICE OF AUDIT
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OLGA DAZZO
DIRECTOR

July 27, 2011

Michael A. Mortimore, EdM, MPH
Health Officer
Berrien County Health Department
769 Pipestone Road
PO Box 706
Benton Harbor, Michigan 49023-0706

Dear: Mr. Mortimore

Enclosed is our final report from the Michigan Department of Community Health (MDCH) audit of the Berrien County Health Department Family Planning Program for the period October 1, 2009 through September 30, 2010.

The final report contains the following: description of agency; funding methodology; purpose; objectives; scope and methodology; conclusions, findings and recommendations; Statement of MDCH Grant Program Revenues and Expenditures; and corrective action plans. The conclusions, findings, and recommendations are organized by audit objective. The corrective action plans include the agency's paraphrased response to the Preliminary Analysis, and the Office of Audit's response to those comments where necessary.

Thank you for the cooperation extended throughout this audit process.

Sincerely,

A handwritten signature in cursive script that reads "Debra S. Hallenbeck".

Debra S. Hallenbeck, Manager
Quality Assurance and Review
Office of Audit

Enclosure

cc: Paulette Dobyne Dunbar, Manager, Division of Family and Community Health
Pam Myers, Director, Office of Audit
Keith Rubley, Auditor, Office of Audit

TABLE OF CONTENTS

	Page
Description of Agency	1
Funding Methodology.....	1
Purpose and Objectives.....	1
Scope and Methodology	2
<u>Conclusions, Findings, and Recommendations</u>	
<u>Internal Controls</u>	2
1. Lack of Controls Over Family Planning Medical Supplies and Drugs	3
<u>Financial Reporting</u>	3
2. Financial Status Report Errors	3
3. Wages and Fringes Improperly Allocated Based on Budget Estimates	4
4. Agency Support and Space Cost Allocations Not Current	6
5. Billing Rates Not Sufficient to Recover Costs	6
<u>MDCH Share of Costs and Balance Due</u>	7
Statement of MDCH Grant Program Revenues and Expenditures.....	8
Cost vs. Amounts Billed for Supplies and Services Schedule.....	9
Corrective Action Plans	10

DESCRIPTION OF AGENCY

The Berrien County Health Department (Health Department) is governed under the Public Health Code, Act 368 of 1978. The Health Department is a Special Revenue Fund of Berrien County and the administrative office is located in Benton Harbor in the Berrien County Health Department building. The Health Department operates under the legal supervision and control of the Board of Commissioners of Berrien County. The Health Department provides community health programs to residents of Berrien County. These services include: Food Protection, Family Planning, Women Infants and Children (WIC) Supplemental Food Program, Hearing Screening, Vision Screening, HIV/AIDS Prevention, Tobacco Reduction, Immunization, Communicable Disease Control, BCCCP, Medicaid Outreach, Drinking Water, Infant Initiative, STD Control, Environmental Health, TB Control, Lead Reduction, Bio-Emergency, and On-Site Sewage.

FUNDING METHODOLOGY

The Health Department services are funded from local appropriations, fees and collections, and grant programs administered through the Michigan Department of Community Health (MDCH), which consist of federal and state funds. MDCH provides the Health Department with grant funding monthly, based on Financial Status Reports, in accordance with the terms and conditions of each grant agreement and budget.

The Family Planning Program was funded by MDCH Grant Funds, First and Third Party Fees and Collections, Local Funds, and other revenue. Grant funding from MDCH for the Family Planning Program is federal funding under federal catalog number 93.217, and is subject to performance requirements. That is, reimbursement from MDCH is based upon the understanding that a certain level of performance (measured in caseload established by MDCH) must be met in order to receive full reimbursement of costs (net of program income and other earmarked sources) up to the contracted amount of grant funds prior to any utilization of local funds.

PURPOSE AND OBJECTIVES

The purpose of this audit was to assess the Family Planning Program internal controls and financial reporting, and to determine the MDCH share of Family Planning Program costs. The following were the specific objectives of the audit:

1. To assess the Health Department's effectiveness in establishing and implementing internal controls over the Family Planning Program.
2. To assess the Health Department's effectiveness in reporting their Family Planning Program financial activity to MDCH in accordance with applicable MDCH requirements and agreements, applicable federal standards, and generally accepted accounting principles.

3. To determine the MDCH share of costs for the Family Planning Program in accordance with applicable MDCH requirements and agreements, and any balance due to or due from the Health Department.

SCOPE AND METHODOLOGY

We examined the Family Planning records and activities for the fiscal period October 1, 2009 to September 30, 2010. Our review procedures included the following:

- Reviewed the most recent Berrien County Health Department Single Audit report for any Family Planning Program concerns.
- Completed an internal control questionnaire.
- Reconciled the Family Planning Program Financial Status Report (FSR) to the accounting records.
- Tested a sample of expenditures for program compliance, and policy and approval procedures.
- Reviewed indirect cost and other cost allocations for reasonableness, and an equitable methodology.
- Reviewed payroll expenditures.
- Reviewed Medical Supply inventory controls.
- Reviewed billing and collection of fees, and collection of donations.

Our audit did not include a review of program content or quality of services provided.

CONCLUSIONS, FINDINGS AND RECOMMENDATIONS

INTERNAL CONTROLS

Objective 1: To assess the effectiveness of the Health Department in establishing and implementing internal controls over the Family Planning Program.

Conclusion: The Health Department was generally effective in establishing and implementing internal controls over the Family Planning Program. However, we noted exceptions with controls over Family Planning medical supplies and drugs (Finding 1), and financial reporting (Findings 2, 3, 4 and 5).

Finding

1. Lack of Controls Over Family Planning Medical Supplies and Drugs

The Health Department lacked internal controls over Family Planning medical supplies and drugs.

The Health Department has no policy or procedure to ensure the proper accounting for Family Planning medical supplies and drugs. No logs are maintained to show quantities received and dispersed for each item. No periodic physical inventory is taken.

Good internal control procedures include formal written policies and procedures to address the storage, access, issuance, restocking and inventorying of Family Planning medical supplies and drugs. Logs should be maintained to show the quantities received and dispersed for each item. Additionally, a periodic inventory should be performed comparing the logs to the actual inventory.

Recommendation

We recommend that the Health Department develop and implement formal policies and procedures for Family Planning medical supplies and drugs that address storage, access, issuance, restocking and inventorying.

FINANCIAL REPORTING

Objective 2: To assess the Health Department's effectiveness in reporting their Family Planning Program financial activity to MDCH in accordance with applicable MDCH requirements and agreements, applicable federal standards, and generally accepted accounting principles.

Conclusion: The Health Department was not effective in reporting their Family Planning Program financial activity to MDCH in accordance with applicable MDCH requirements and agreements, applicable federal standards, and generally accepted accounting principles. We noted numerous exceptions with FSR reporting (Finding 2), improper payroll distributions (Finding 3), outdated agency support and space cost allocation rates (Finding 4), and an exception with billing rates (Finding 5).

Finding

2. Financial Status Report Errors

The Health Department's FSR contained a duplicate accrual, improper accruals, expenditures that did not agree with the general ledger, and an improper negative Local Funds amount.

In the initial preparation of the final FSR for FYE 2010, expenses accrued for the year end of \$31,730 were reported twice. Further review of the accrued expenses indicated that \$4,900

of the expenses pertained to FYE 2011. The accrual errors also resulted in overstatement of allocated Agency Support and Space Cost. The total impact between the initial FSR and the final FSR was \$40,600. This situation was identified during the audit fieldwork, and a revised FSR was submitted to MDCH. However, the revised FSR erroneously showed a negative Local Funds Other amount of \$27,300. Another revised FSR was submitted to MDCH subsequent to the audit fieldwork removing the negative Local Funds Other amount.

Additionally, \$70 in travel expense for FYE 2011 was improperly recorded as a FYE 2010 expense; and salary and wages was understated \$602 in comparison to the general ledger.

In accordance with Office of Management and Budget (OMB) Circular A-87, in order for a cost to be allowable it must be allocable in accordance with relative benefits received, adequately documented, and determined in accordance with generally accepted accounting principles. A duplicate accrual and accruals for subsequent period expenditures do not meet the requirements for allowability. Additionally, reported expenditures should agree with supporting documentation such as the Health Department's general ledger.

Adjustments for travel expense, and salary and wages are shown on the attached Statement of MDCH Grant Program Revenues and Expenditures.

Recommendation

We recommend that the Health Department develop and implement policies and procedures to ensure the Financial Status Report only includes allowable expenditures and reported expenditures agree with supporting documentation, and the Financial Status Report does not include negative local funds.

Finding

3. Wages and Fringes Improperly Allocated Based on Budget Estimates

The Health Department distributes wages and fringe benefits expenses based on budget estimates determined before the services are performed and makes no adjustment to actual cost as required by OMB Circular A-87.

In the review of September 2010 wages and fringe benefits, we noted that one employee's wages and fringe benefits were improperly charged to the Family Planning Program based on a 95% budget estimate whereby actual time worked on the Family Planning Program was only 81%. Another employee's wages and fringe benefits were improperly charged to the Family Planning Program based on a 25% budget estimate; however, the employee did not work on the Family Planning Program during September according to the timesheets. The Health Department made no adjustment to actual.

OMB Circular A-87, Appendix B, subsection 8. h. requires that the distribution of wages be supported by personnel activity reports that reflect an after-the-fact distribution of the actual activity of each employee, and that budget estimates may only be used for interim accounting purposes with adjustments to actual as follows:

- (4) *Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation which meets the standards in subsection 8. h. (5)...*
- (5) *Personnel activity reports or equivalent documentation must meet the following standards:*
 - (a) *They must reflect an after-the-fact distribution of the actual activity of each employee...*
 - (e) *Budget estimates or other distribution percentages determined before the services are performed do not qualify as support for charges to Federal awards but may be used for interim accounting purposes, provided that:*
 - (i) *The governmental unit's system for establishing the estimates produces reasonable approximations of the activity actually performed;*
 - (ii) *At least quarterly, comparisons of actual costs to budgeted distributions based on the monthly activity reports are made. Costs charged to Federal awards to reflect adjustment made as a result of the activity actually performed may be recorded annually if the quarterly comparisons show the differences between budgeted and actual costs are less than ten percent; and*
 - (iii) *The budget estimates or other distribution percentages are revised at least quarterly, if necessary, to reflect changed circumstances.*

For the one month reviewed, we noted that the Family Planning Program was *overcharged* \$2,287 in wages and fringes for these two employees. The Health Department is obligated under the provisions of OMB Circular A-87 to compare actual costs to the budgeted distributions and determine the required adjustment. Subsequent to the audit fieldwork, the Health Department determined that the Family Planning Program was *undercharged* \$2,404 in wages and fringes for the entire year. Adjustments increasing wages and fringes to the amounts supported by employee activity reports are shown on the attached Statement of MDCH Grant Program Revenues and Expenditures. The adjustments had no impact on MDCH funding since the grant award had already been fully expended.

Recommendation

We recommend that the Health Department develop and implement policies and procedures to ensure the Financial Status Report only includes allowable wages and fringes expenditures that are supported by personnel activity reports that reflect an after-the-fact distribution of the actual activity of each employee.

Finding

4. Agency Support and Space Cost Allocations Not Current

The Health Department last calculated the actual rates for agency support and space cost allocations in 2006 and those rates have been used since then by the Health Department on their budgets and financial reporting. Additionally, the Health Department did not clearly distinguish between agency support and space cost expenses.

In accordance with OMB Circular A-87, in order for a cost to be allowable it must be allocable in accordance with relative benefits received and adequately documented. Allocation rates must be updated annually based on actual expenditures for the rates to accurately represent an allocation based on relative benefits received.

An adjustment was not made due to the inability to distinguish between agency support and space cost expenses, and since the allocations generally appeared reasonable.

Recommendation

We recommend the Health Department calculate agency support and space cost allocation rates based on actual expenditures annually and apply those rates to an appropriate direct cost base for FSR reporting. Additionally, we recommend the Health Department clearly distinguish between agency support and space cost expenses.

Finding

5. Billing Rates Not Sufficient to Recover Costs

The Health Department's billing rates for family planning services and supplies were generally too low to recover cost. Therefore, clients from households with an annual income that exceeded 250% of the poverty guideline were not charged for the reasonable cost of providing services as required by Title X regulations.

The Health Department provided an analysis of each service and supply provided in the audit period, which was multiplied by the rates in effect during that time. This determined the maximum annual recovery if every client was billed (and paid) the maximum amount billable per the fee schedule. When this was compared to the total reported cost of \$433,581 we found the rates used would not recover \$63,703 of the cost. (see Schedule of Costs vs. Amounts Billed for Services and Supplies Schedule on page 9).

Title X regulations at 42 CFR 59.5 (a) state, in part:

...Each project supported under this part must:

...(8) Provide that charges will be made for services to persons other than those from low-income families in accordance with a fee schedule of discounts based on ability to pay, except that charges to persons from families whose annual income exceeds 250 percent of the levels set forth in the most recent Poverty Guidelines...will be made in accordance with a schedule of fees designed to recover reasonable cost of providing services....

Because the Health Department fee schedule cannot recover the total cost of services and supplies, amounts charged to persons from families whose annual income exceeds 250 percent of the Poverty Guidelines will not recover the reasonable cost of providing services.

The estimated effect is that an amount potentially recoverable from 1st, 2nd and 3rd parties was paid from other sources. Because the amount recovered from 1st, 2nd, and 3rd parties was \$181,856, and billing rates were about 14.7% under cost, we can estimate the effect was approximately \$31,320 for the year.

Recommendation

We recommend that the Health Department comply with the Title X regulations by increasing its billing rates to an amount that is sufficient to recover the reasonable cost of services.

MDCH SHARE OF COSTS AND BALANCE DUE

Objective 3: To determine the MDCH share of costs for the Family Planning program in accordance with applicable MDCH requirements and agreements, and any balance due to or due from the Health Department.

Conclusion: The MDCH obligation under the Family Planning Program for fiscal year ended September 30, 2010 is \$148,538. The attached Statement of MDCH Grant Program Revenues and Expenditures shows the budgeted, reported and allowable costs; and audit adjustments. The audit adjustments had no impact on MDCH funding.

Berrien County Health Department
Family Planning Program
Statement of MDCH Grant Program Revenues and Expenditures
10/1/09 - 9/30/10

	BUDGETED	REPORTED	AUDIT ADJUSTMENT	ALLOWABLE
REVENUES:				
MDCH Grant	\$148,538	\$148,538 ¹	\$0	\$148,538
Fees 1st & 2nd Party	27,500	19,819	0	19,819
Fees & Collections - 3rd Party	168,967	162,037	0	162,037
Fed/State Funding (Non-MDCH)	20,000	7,819	0	7,819
Medicaid Match (Title XIX)	8,000	0	0	0
Local Funds Other	27,275	0	2,334 ^{2,3,4}	2,334
Miscellaneous Income	0	300	0	300
MCH Funding	95,068	95,068	0	95,068
TOTAL REVENUES	\$495,348	\$433,581	\$2,334	\$435,915
EXPENDITURES:				
Salary and Wages	\$110,876	\$130,830	\$2,052 ^{2,4}	\$132,882
Fringe Benefits	49,153	48,890	352 ⁴	49,242
Supplies	138,650	44,710	0	44,710
Travel	6,900	5,611	(70) ³	5,541
Communications	100	129	0	129
Space Cost	16,803	18,871	0	18,871
Admin Overhead	50,409	56,612	0	56,612
CCHS Administration	33,457	37,257	0	37,257
Other Expense	89,000	90,671	0	90,671
TOTAL EXPENDITURES	\$495,348	\$433,581	\$2,334	\$435,915

- 1** Actual MDCH payments provided on a performance reimbursement basis.
- 2** Increase Salary and Wages \$602 to the amount supported by the general ledger (Finding 2).
- 3** Remove a Travel expense accrual for a FYE 2011 expense (Finding 2).
- 4** Increase Salary and Wages, and Fringe Benefits to the actual amounts supported by employee time sheets (Finding 3).

**Berrien County Health Department
Family Planning
Costs vs Amounts Billed for Services and Supplies
10/1/09 - 9/30/10**

	<u>Procedure</u>	<u>Total Quantity</u>	<u>Price</u>	<u>Total</u>
9384	Initial - 12-17	79	\$108.00	\$8,532.00
9385	Initial - 18-39	188	\$108.00	\$20,304.00
9386	Initial - 40-64	6	\$128.00	\$768.00
4097	Office Visit Established	543	\$56.00	\$30,408.00
9203	Office Visit New	5	\$50.00	\$250.00
4098	Counseling/Supply Visit	2793	\$20.00	\$55,860.00
9394	Annual Visit 12-17	76	\$88.00	\$6,688.00
9395	Annual Visit 18-39	841	\$96.00	\$80,736.00
9396	Annual Visit 40-64	60	\$108.00	\$6,480.00
5018	Hemoglobin	20	\$8.00	\$160.00
4121	Pregnancy Test	1067	\$16.00	\$17,072.00
4115	Pap Smear	5	\$16.00	\$80.00
4251	Pap Smear Thin Prep	906	\$32.00	\$28,992.00
4261	HPV Testing	2	\$52.00	\$104.00
4122	Wet Mount	83	\$16.00	\$1,328.00
7115	STD Screen	466	\$20.00	\$9,320.00
4228	ECC Pathology	11	\$56.00	\$616.00
4156	Oral Contraceptives	1730	\$16.00	\$27,680.00
4262	Ortho Evra Patch	38	\$16.00	\$608.00
4263	Nuva Ring	383	\$32.00	\$12,256.00
4267	Depo Provera	1601	\$28.00	\$44,828.00
4154	Plan B	163	\$8.00	\$1,304.00
4157	Male Condoms	974	\$8.00	\$7,792.00
4153	Female Condoms	10	\$4.00	\$40.00
4158	Gel	16	\$8.00	\$128.00
4150	Diaphragm	1	\$20.00	\$20.00
4132	IUD	33	\$228.00	<u>\$7,524.00</u>
				\$369,878.00
	Total Expenses			<u>\$433,581.00</u>
	(Shortfall)/Excess			<u><u>(\$63,703.00)</u></u>

Corrective Action Plan

Finding Number: 1

Page Reference: 3

Finding: **Lack of Controls Over Family Planning Medical Supplies and Drugs**

The Health Department lacked internal controls over Family Planning medical supplies and drugs.

Recommendation: Develop and implement formal policies and procedures for Family Planning medical supplies and drugs that address storage, access, issuance, restocking and inventorying.

Health Department

Comments: Agree with finding.

Corrective Action: Developed and implemented a formal policy and procedures which address the storage area of medical supplies and drugs, as well as, access, issuance, restocking and inventorying of these items.

**Anticipated
Completion Date:** Completed

MDCH Response: None

Corrective Action Plan

Finding Number: 2

Page Reference: 3

Finding: Financial Status Report Errors

The Health Department's FSR contained a duplicate accrual, improper accruals, expenditures that did not agree with the general ledger, and an improper negative Local Funds amount.

Recommendation: Develop and implement policies and procedures to ensure the Financial Status Report only includes allowable expenditures and reported expenditures agree with supporting documentation, and the Financial Status Report does not include negative local funds.

Health Department

Comments: Agree with finding. Errors in judgment were made with several accruals and were not thoroughly investigated.

Corrective Action: Developed and implemented policies and procedures to ensure that FSRs are correctly stated with allowable expenditures and supporting documentation and correct statement of local funding.

Anticipated Completion Date: Completed

MDCH Response: None

Corrective Action Plan

Finding Number: 3

Page Reference: 4

Finding: **Wages and Fringes Improperly Allocated Based on Budget Estimates**

The Health Department distributes wages and fringe benefits expenses based on budget estimates determined before the services are performed and makes no adjustment to actual cost as required by OMB Circular A-87.

Recommendation: Develop and implement policies and procedures to ensure the Financial Status Report only includes allowable wages and fringes expenditures that are supported by personnel activity reports that reflect an after-the-fact distribution of the actual activity of each employee.

Health Department

Comments: Agree with finding. Error made in determining final actual cost of wages and fringes. Adjustments not made.

Corrective Action: Reported time data will be compared to payroll and fringes based on the budgeted percentages, and differences will be entered into the general ledger. In 60-90 days, actual time will be charged directly rather than using budget calculations and adjustments.

Anticipated

Completion Date: Fall 2011

MDCH Response: None

Corrective Action Plan

Finding Number: 4

Page Reference: 6

Finding: Agency Support and Space Cost Allocations Not Current

The Health Department last calculated the actual rates for agency support and space cost allocations in 2006 and those rates have been used since then by the Health Department on their budgets and financial reporting. Additionally, the Health Department did not clearly distinguish between agency support and space cost expenses.

Recommendation: Calculate agency support and space cost allocation rates based on actual expenditures annually and apply those rates to an appropriate direct cost base for FSR reporting. Additionally, clearly distinguish between agency support and space cost expenses.

Health Department

Comments: Agree with finding.

Corrective Action: Developed a policy to calculate an indirect cost rate on an annual basis after the end of the county's calendar year end, and to use the calculated rate for budgeting and cost reporting in the following fiscal year. For example, calendar year end 2008 data will be used to calculate a rate for fiscal year end 2010 budgeting and cost reporting.

Anticipated

Completion Date: Completed

MDCH Response: The methodology is acceptable for budgeting purposes. However, for cost reporting, actual costs from the specific time period must be used for the rate calculation and cost distribution.

Corrective Action Plan

Finding Number: 5

Page Reference: 6

Finding: **Billing Rates Not Sufficient to Recover Costs**

The Health Department's billing rates for family planning services and supplies were generally too low to recover cost. Therefore, clients from households with an annual income that exceeded 250% of the poverty guideline were not charged for the reasonable cost of providing services as required by Title X regulations.

Recommendation: Comply with the Title X regulations by increasing billing rates to an amount that is sufficient to recover the reasonable cost of services.

Health Department

Comments: Agree with finding. Though the Health Department has increased fees in the past, they have not caught up to cover reasonable costs.

Corrective Action: Complete Family Planning cost study of rates annually to ensure that they are sufficient to cover costs and comply with Title X regulations.

Anticipated

Completion Date: July 30, 2011

MDCH Response: None