

Audit Report

Berrien County Health Department
Family Planning and WIC Programs

October 1, 2011 – September 30, 2012



Office of Audit
Quality Assurance and Review Section
December 2013



RICK SNYDER
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF COMMUNITY HEALTH
OFFICE OF AUDIT
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December 20, 2013

Michael A. Mortimore, EdM, MPH, Health Officer/Director
Berrien County Health Department
769 Pipestone Street
P.O. 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 WIC and Family Planning Programs for the period October 1, 2011 through September 30, 2012.

The final report contains the following: description of agency; funding methodology; purpose; objectives; scope and methodology; conclusions, findings and recommendations; Statements of MDCH Grant Program Revenues and Expenditures; Costs vs. Amounts Billed for Supplies and Services Schedule; Corrective Action Plans, and Comments and Recommendations. The conclusions and findings 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: Pam Myers, Director, Office of Audit
Stan Bien, Director, WIC Division
Paulette Dobyne Dunbar, Manager, Division of Family and Community Health
Jeanette Lightning, Manager, Reproductive Health Unit
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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. The Michigan Department of Community Health (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, and First and Third Party Fees and Collections. Grant funding from MDCH for the Family Planning Program is federal funding under federal catalog numbers 93.217 and 93.994, 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.

Grant funding from MDCH for the WIC Program is federal funding under federal catalog number 10.557 and is first source funding, subject to performance requirements.

PURPOSE AND OBJECTIVES

The purpose of this audit was to assess the Family Planning and WIC Programs internal controls and financial reporting, and to determine the MDCH shares of the Family Planning Program and WIC 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 and WIC Programs.
2. To assess the Health Department's effectiveness in reporting their Family Planning and WIC Programs 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 shares of cost for the Family Planning and WIC Programs 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 Program and WIC Program records and activities for the fiscal period October 1, 2011 to September 30, 2012. Our review procedures included the following:

- Reviewed the most recent Berrien County Health Department Single Audit report for any Family Planning and WIC Programs concerns.
- Reviewed the completed internal control questionnaire.
- Reconciled the Family Planning and WIC Programs Financial Status Reports (FSRs) to the accounting records.
- Tested a sample of expenditures for program compliance, and policy and approval procedures.
- Reviewed payroll, indirect cost and other cost allocations for reasonableness, and an equitable methodology.
- Reviewed the Health Department equipment inventory record system.
- 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 and WIC Programs.

Conclusion: The Health Department was generally effective in establishing and implementing internal controls over the Family Planning and WIC Programs. However, we noted a repeat exception with billing rates (Finding 1).

Finding

1. Billing Rates Not Sufficient to Recover Costs (Repeat)

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. This was also noted in the previous MDCH Family Planning audit (FYE 2010).

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 \$430,808 we found the rates used would not recover \$144,705 of the cost (see Schedule of Cost vs. Amounts Billed for Services and Supplies Schedule on page 10).

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 the 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% of the Poverty Guidelines will not recover the reasonable cost of providing services.

The estimated effect is that an amount potentially recoverable from clients was paid from other sources. Because the amount recoverable from all clients was \$29,106 and billing rates were about 33.59% under cost, we can estimate the effect was approximately \$14,721 for the year.

Recommendation

We again recommend that the Health Department comply with the Title X regulations by increasing billing rates to an amount that is sufficient to recover the reasonable cost of services. If, however, the Health Department chooses to set fees lower than what is required to recover actual costs, adopt a policy designating the percentage of the cost the fee is to represent in accordance with Section 6.3.2 of the MDCH Title X Family Planning Standards and Guidelines.

FINANCIAL REPORTING

Objective 2: To assess the Health Department's effectiveness in reporting their Family Planning and WIC Programs 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 and WIC Programs 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: understated revenue (Finding 2); outdated agency support, space cost and nursing supervision allocation rates (Finding 3); and understated agency support cost pool (Finding 4).

Finding

2. Understated Revenue Reported on FSR

The Health Department did not report the full amount of revenue received from clients and insurance companies on the final FSR.

The Health Department received \$29,106 from 1st and 2nd Party Fees and Collections for the Family Planning Program, but only reported \$23,653. The Health Department received \$104,398 from 3rd Party Fees and Collections for the Family Planning Program, but only reported \$84,838. The WIC program had Other Revenue of \$9,922 but only \$7,214 was reported on the FSR.

The Financial Status Report Form Preparation Instructions require the following for reporting fees and collections:

Fees and collections received during the current report period. Fees and collections represent funds, which the program earned through its operation and retains for operational purposes. This would include fees for services, payments by third parties (insurance, patient collections, Medicaid, etc.) and any other collections.

Adjustments are shown on the attached Statements of MDCH Grant Program Revenues and Expenditures.

Recommendation

We recommend that the Health Department follow the FSR Form Preparation Instructions and report the full amount of all fees and collections collected during the reporting period on the FSR.

Finding

3. Agency Support, Space Cost and Nursing Supervision Allocations Not Current (Repeat)

The Health Department developed agency support and space cost allocation rates based on calendar year 2011 information and applied the rates to the FYE 2012 salary and fringes; and used an outdated budgeted rate for nursing supervision allocations for FYE 2012.

According to OMB Circular A-87 (located at 2 CFR Part 225), Appendix A, Sections C.1.b. and C.1.j., 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. Furthermore, documentation must be retained to support the allocations and reported expenditures.

The Health Department's agency support and space cost allocation methodology incorrectly used calendar year 2011 costs and a calendar year 2011 distribution base, and applied it to fiscal year end 2012 salary and fringe information. MDCH's FYE 2010 and FYE 2011 Audit Reports informed the Health Department in the Corrective Action Plan to Finding #4 that this methodology was only acceptable for budgeting purposes. For cost reporting, actual costs from the specific time period must be used for the rate calculation and cost distribution. In determining a proper allocation of agency support and space cost, the calendar year 2011 rate was applied to the October 2011-December 2011 salary and fringes to determine the first three months of allocations, and the calendar year 2012 rate was applied to the January 2012-September 2012 salary and fringes to determine the last nine months of allocations. After combining these two amounts it was determined that the Family Planning Program was under allocated \$1,648 for agency support and over allocated \$3,944 for space cost, and the WIC Program was under allocated \$2,181 for agency support and over allocated \$7,176 for space cost.

The Health Department used an outdated percent (24%) to allocate nursing supervision costs to both the Family Planning Program and the WIC Program. Beginning in October 2012, nursing supervision costs were correctly allocated to the programs supervised based on a percentage of salaries and fringes for each programs. In an effort to determine a reasonable allocation of costs for FYE 2012, these percentages (18.26% for Family Planning and 31.21% for WIC) were applied to the FYE 2012 actual nursing supervision expenses. Based on this calculation, the Family Planning Program was over allocated \$5,617 and the WIC Program was under allocated by \$8,920.

Adjustments for the above noted differences are shown on the attached Statements of MDCH Grant Program Revenues and Expenditures.

Recommendation

We recommend the Health Department implement policies and procedures to ensure the indirect rate calculations are based on current fiscal year expenditures.

Finding

4. Understated Agency Support Cost Pool (Repeat)

The Health Department does not include the full amount of eligible County Central Service Costs in their agency support cost pool.

According to OMB Circular A-87 (located at 2 CFR Part 225) Attachment A, General Principles for Determining Allowable Costs, Section C. 3. – Allocable Costs – a cost is allocable to a particular cost objective in accordance with relative benefits received.

The County has a Central Service Cost Allocation Plan prepared each year to be used to determine eligible costs for each department of the County to claim as indirect costs chargeable to Federal Programs. The Health Department expensed the same amount of \$47,500 each year for several years through 2011. The amount increased to \$252,321 in 2012, but this amount could not be explained nor traced to supporting documentation, and appears far less than the eligible amounts appearing on the Central Service Cost Allocation Plans.

This has been an issue in the previous two MDCH audits of the WIC Program. In response to the FYE 2005 audit, the Health Department stated they were budgeting and reporting the full amount of eligible County Central Service Cost in the indirect rate and indirect cost allocation. In response to the FYE 2010 audit, the Health Department stated they would work with the County financial staff on the financial effects of this and implement the appropriate changes by December 31, 2012.

Recommendation

We again recommend that the Health Department implement policies and procedures to ensure total eligible County Central Service Costs are included in the agency support cost pool for calculating the indirect cost rate and allocations to all Health Department programs.

MDCH SHARES OF COST AND BALANCE DUE

Objective 3: To determine the MDCH shares of cost for the Family Planning and WIC Programs 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, 2012 is \$107,296 after adjusting for understated revenue (Finding 2) and misstated agency support, space cost, and nursing supervision (Finding 3). The attached Statement of MDCH Grant Program Revenues and Expenditures shows the budgeted, reported and allowable costs. The audit adjustments would have resulted in \$32,926 due to MDCH. However, since it appears there was a considerable amount of unreported allowable costs (County Central Services per Finding 4), no amount will be due from the Health Department.

The MDCH obligation under the WIC Program for fiscal year ended September 30, 2012 is \$650,169. The attached Statement of MDCH Grant Program Revenues and Expenditures shows the budgeted, reported, and allowable costs. The audit made no adjustments affecting the WIC Program grant funding.

**Berrien County Health Department
Family Planning Program
Statement of MDCH Grant Program Revenues and Expenditures
10/1/11 - 9/30/12**

	BUDGETED	REPORTED	AUDIT ADJUSTMENT	ALLOWABLE
REVENUES:				
MDCH Grant	\$140,222	\$140,222 1	(\$32,926)	\$107,296
Fees 1 st & 2 nd Party	\$20,000	\$23,653	\$5,453 2	\$29,106
Fees & Collections - 3 rd Party	\$87,000	\$84,838	\$19,560 2	\$104,398
Local Funds Other	\$17,096	\$0	\$0	\$0
MCH Funding	\$190,008	\$190,008	\$0	\$190,008
TOTAL REVENUES	\$454,326	\$438,721	(\$7,913)	\$430,808
EXPENDITURES:				
Salary and Wages	\$142,438	\$153,287	\$0	\$153,287
Fringe Benefits	\$59,417	\$57,634	\$0	\$57,634
Supplies	\$73,742	\$49,521	\$0	\$49,521
Travel	\$4,200	\$6,000	\$0	\$6,000
Communications	\$140	\$62	\$0	\$62
Space Cost	\$18,369	\$19,415	(\$3,944) 3	\$15,471
Other Costs	\$76,366	\$70,132	\$0	\$70,132
Admin Overhead	\$57,561	\$60,377	\$1,648 3	\$62,025
CCHS Administration	\$22,093	\$22,293	(\$5,617) 3	\$16,676
TOTAL EXPENDITURES	\$454,326	\$438,721	(\$7,913)	\$430,808

1 Actual MDCH payments provided on a performance reimbursement basis

2 Understated Revenue Reported on FSR (Finding 2)

3 Agency Support, Space Cost and Nursing Supervision Allocations Not Current (Finding 3)

**Berrien County Health Department
WIC Program
Statement of MDCH Grant Program Revenues and Expenditures
10/1/11 - 9/30/12**

	BUDGETED	REPORTED	AUDIT ADJUSTMENT	ALLOWABLE
REVENUES:				
MDCH Grant	\$708,398	\$650,169 1	\$0	\$650,169
Fees 1 st & 2 nd Party	\$0	\$0	\$0	\$0
Fees & Collections – 3 rd Party	\$1,200	\$980	\$0 2	\$980
Other Revenue	\$0	\$7,214	\$2,708	\$9,922
Local Revenue	\$0	\$0	\$1,217	\$1,217
TOTAL REVENUES	\$709,598	\$658,363	\$3,925	\$662,288
EXPENDITURES:				
Salary and Wages	\$320,639	\$278,891	\$0	\$278,891
Fringe Benefits	\$148,859	\$152,781	\$0	\$152,781
Supplies	\$7,671	\$16,326	\$0	\$16,326
Travel	\$6,250	\$7,542	\$0	\$7,542
Communications	\$1,500	\$1,341	\$0	\$1,341
Space Cost	\$47,724	\$39,162	(\$7,176) 3	\$31,986
Other Costs	\$15,907	\$18,140	\$0	\$18,140
Admin Overhead	\$133,305	\$124,597	\$2,181 3	\$126,778
CCHS Administration	\$27,743	\$19,583	\$8,920 3	\$28,503
TOTAL EXPENDITURES	\$709,598	\$658,363	\$3,925	\$662,288

1 Actual MDCH payments provided on a performance reimbursement basis

2 Understated Revenue Reported on FSR (Finding 2)

3 Agency Support, Space Cost and Nursing Supervision Allocations Not Current (Finding 3)

**Berrien County Health Department
Family Planning
Cost vs. Amounts Billed for Supplies and Services Schedule
10/1/11 – 9/30/12**

<u>Procedure</u>	<u>Total Quantity</u>	<u>Price</u>	<u>Total</u>
Office Visit Est 12-17	48	\$88.00	\$4,224.00
Office Visit Est 18-39	568	\$96.00	\$54,528.00
Office Visit Est 40-64	65	\$108.00	\$7,020.00
Office Visit New 12-17	55	\$108.00	\$5,940.00
Office Visit New 18-39	115	\$108.00	\$12,420.00
Office Visit New 40-64	4	\$128.00	\$512.00
Supply Visit/Counseling	2092	\$20.00	\$41,840.00
Office Visit 20 minutes	24	\$50.00	\$1,200.00
Medical Revisit	223	\$63.00	\$14,049.00
Urine Preg Test	635	\$16.00	\$10,160.00
Hemoglobin	3	\$8.00	\$24.00
Pap Smear Thin Prep	514	\$40.00	\$20,560.00
Pap Smear	0	\$16.00	\$0.00
Chlamydia/Gonorrhea Gen Probe	469	\$77.00	\$36,113.00
Coorectal Screening	1	\$12.00	\$12.00
Trichomonas Rapid Test	35	\$16.00	\$560.00
Fluconazole	34	\$10.00	\$340.00
Terazol Cream	14	\$20.00	\$280.00
Metronidazole	47	\$15.00	\$705.00
Zithromax	46	\$15.00	\$690.00
Oral Contraceptives	1193	\$16.00	\$19,088.00
Depo-Provera	1323	\$28.00	\$37,044.00
Jelly, Gel, Foam Cream	16	\$8.00	\$128.00
Condoms dz	433	\$8.00	\$3,464.00
Female Condom	15	\$4.00	\$60.00
Ortho Evra Patch	35	\$16.00	\$560.00
IUD Paragard	22	\$305.00	\$6,710.00
Plan B	72	\$8.00	\$576.00
Nuva Ring	228	\$32.00	\$7,296.00
			\$286,103.00
Total Expenses			\$430,808.00
(Shortfall)/Excess			(\$144,705.00)

Corrective Action Plan

Finding Number: 1

Page Reference: 3

Finding: **Billing Rates Not Sufficient to Recover Cost (Repeat)**

The Health Department used billing rates for Family Planning services and supplies that 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. This was also noted in the last MDCH audit (FYE 2010).

Recommendation: Comply with the Title X regulations by increasing billing rates to an amount that is sufficient to recover the reasonable cost of services. If, however, the Health Department chooses to set fees lower than what is required to recover actual costs, adopt a policy designating the percentage of the cost the fee is to represent in accordance with Section 6.3.2 of the MDCH Title X Family Planning Standards and Guidelines.

Comments: Agree with finding.

Corrective Action: The Health Department will use the Family Planning Cost Study as a reference to increase the fees. On a hand full of charges the fee increase is so much that the Health Department will do the fee increase in steps over two years.

**Anticipated
Completion Date:** January 1, 2014

MDCH Response: None

Corrective Action Plan

Finding Number: 2

Page Reference: 4

Finding: Understated Revenue Reported on FSR

The Health Department did not report the full amount of revenue received from clients and insurance companies on the final FSR.

Recommendation: Follow the FSR Form Preparation Instructions and report the full amount of all fees and collections collected during the reporting period on the FSR.

Comments: The Health Department applied this incorrectly.

Corrective Action: The Health Department will apply client and insurance companies' fees first on the FSRs going forward.

**Anticipated
Completion Date:** January 1, 2014

MDCH Response: None

Corrective Action Plan

Finding Number: 3

Page Reference: 5

Finding: Agency Support, Space Cost, and Nursing Supervision Allocations Not Current (Repeat)

The Health Department developed agency support and space cost allocation rates based on calendar year 2011 information and applied the rates to the FYE 2012 salary and fringes; and used an outdated budgeted rate for nursing supervision allocations for FYE 2012.

Recommendation: Implement policies and procedures to ensure the indirect rate calculations are based on current fiscal year expenditures.

Comments: The Health Department started using the below corrective action after the WIC audit in 2012.

Corrective Action: The Health Department implemented a system to allocate agency support and space cost monthly based on current costs and a current distribution base. Current month agency support and space costs will be allocated to programs based on percentages of benefitting programs' salaries and fringes in relation to total salaries and fringes of the Health Department less agency support salaries and fringes.

The Health Department also implemented a system to allocate the nursing supervision monthly. Nursing supervision costs will be allocated to programs that are supported by nursing supervision based on percentages of those programs' salaries and fringes in relation to total salaries and fringes of the programs that are supported by nursing supervision.

**Anticipated
Completion Date:** October 1, 2013

MDCH Response: None

Corrective Action Plan

Finding Number: 4

Page Reference: 6

Finding: Understated Agency Support Cost Pool (Repeat)

The Health Department does not include the full amount of eligible County Central Service Costs in their agency support cost pool.

Recommendation: Implement policies and procedures to ensure total eligible County Central Service Costs are included in the agency support cost pool for calculating the indirect cost rate and allocations to all Health Department programs.

Comments: This will result in a significant increase in the indirect cost that the programs are going to have to pay for administration.

Corrective Action: The Health Department worked with the County Financial Staff. As budgeted in the 2013 County Budget the full cost of the Maximus Report will be charged to the Health Department administration fund in the 2013 calendar year.

Anticipated Completion Date: January 1, 2013

MDCH Response: None

Comments and Recommendations

Travel Vouchers

During the review of travel vouchers, it was noted that the travel vouchers do not indicate departure, arrival and return times. While this not an issue regarding reimbursement for mileage only, it becomes important when employees are being reimbursed for meals. Although the current policy states the times when meals can be reimbursed, there is no way to tell if the time away justifies the meal being reimbursed.

Recommendation

We recommend the Health Department include departure, arrival and return times on the travel vouchers.

Health Department Comments

The addition of departure and arrival times on travel sheets would be an unfunded burden on the Health Department. The employee that is putting meal on the travel sheet is to designate if the meal is Breakfast, Lunch, or Dinner and attach an original receipt to the travel sheet. All travel sheets have to be approved by the employee's supervisor and the supervisor should know if the meal is authorized or not.

MDCH Response:

To provide support for the meal expenditure that it complies with time frames established by policy, and to further strengthen internal controls, we recommend the Health Department reconsider this recommendation.