



RICK SNYDER  
GOVERNOR

STATE OF MICHIGAN  
DEPARTMENT OF COMMUNITY HEALTH  
OFFICE OF AUDIT  
400 S. PINE; LANSING, MI 48933

JAMES K. HAVEMAN  
DIRECTOR

May 2, 2014

Vernice Anthony, Director and Health Officer  
City of Detroit Department of Health and Wellness Promotion  
1600 W. Lafayette, Suite 200  
Detroit, MI 48216-1928

Dear Ms. Anthony:

Enclosed is our final report from the Michigan Department of Community Health (MDCH) audit of the City of Detroit Department of Health and Wellness Promotion Family Planning Program 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; 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. For Finding #4, we added comments to the Corrective Action Plan because the planned corrective action did not fully address the issues. Please take note and implement needed corrective actions regarding the subcontracts.

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  
Jeanette Lightning, Manager, Reproductive Health Unit  
Pam Myers, Director, Office of Audit  
Keith Rubley, Auditor, Office of Audit  
Steve Utter, Financial Analyst, Division of Family and Community Health

# Audit Report

Detroit Department of Health and Wellness Promotion

Family Planning Program

October 1, 2011 – September 30, 2012



Office of Audit  
Quality Assurance and Review Section  
May 2014

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## **DESCRIPTION OF AGENCY**

The Detroit Department of Health and Wellness Promotion (Health Department) is governed under the Public Health Code, Act 368 of 1978. The Health Department is accounted for as the Health Activity of the City General Fund. The Health Department operates under the legal supervision and control of the Mayor and City Council, with divided powers and duties as provided by law and the city charter. The Health Department provides community health program services to the residents of Detroit. These services include: Food Service Sanitation, Vision Screening, Hearing Screening, Immunizations, General Communicable Disease Control, Sexually Transmitted Disease Control, AIDS/HIV Prevention, Children's Special Health Care Services, Tobacco Reduction, Women Infants and Children Supplemental Food Program, Child Health, Childhood Lead, Medicaid Outreach, Bioterrorism/Emergency Preparedness/ Pandemic Flu, and Family Planning.

## **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, and local funds. 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 Health Department's records and activities for the period October 1, 2011 to September 30, 2012. Our review procedures included the following:

- Reviewed the most recent City of Detroit Single Audit Report for any Family Planning Program concerns.
- Reviewed the 2010 audit of the City of Detroit Department of Health and Wellness Promotion by the State's Office of Internal Audit Services for any Family Planning Program concerns.
- Reviewed the completed 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 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 Health Department's effectiveness in establishing and implementing internal controls over the Family Planning Program.

**Conclusion:** The Health Department was not effective in establishing and implementing internal controls over the Family Planning Program. Numerous internal control exceptions were noted as follows: There was no cost analysis to determine the fee schedule (Finding 1); the sliding fee schedule was not applied correctly (Finding 2); there is a lack of collection of fees and reimbursements (Finding 3); subcontractors were operating without executed contracts and subcontracts lack clarity (Finding 4); subcontractor payments were duplicated and exceeded approved contract terms (Finding 5); there was a lack of subcontractor monitoring (Finding 6), and reported costs lacked adequate supporting documentation (Finding 7). Additionally, controls over financial reporting were lacking as addressed under the Financial Reporting Objective (Findings 8, 9, 10, 11, and 12).

#### **Finding**

##### **1. Lack of Cost Analysis in Determining Fee Schedule**

The Health Department could not evidence the use of a recent cost analysis in developing their fee schedule for supplies and services.

MDCH's Title X Family Planning Standards and Guidelines, Section 6.3.1. Charges, Billings and Collections states:

- B. Delegate agencies must develop a process which utilizes a recent cost analysis of all services provided by the project to develop a fee schedule designed to recover the reasonable costs of providing services. To be recent, a cost analysis should be conducted within three years, or within one year following major changes to the program. Delegates may choose to set fees lower than what is required to recover actual costs, based on community needs and circumstances. If the agency chooses to set fees lower than what is required to recover actual cost, the agency must have an administrative approved policy in place designating the percentage of the cost the fee is to represent. Charges must be consistent with the agency's policy.*

**Recommendation**

We recommend that the Health Department adopt policies and procedures to ensure the Health Department and/or any subcontract providers that assess fees [Institute for Population Health (IPH) and any subcontractors of IPH] utilize recent cost analyses to develop fee schedules designed to recover the reasonable costs of providing services. We also recommend that the Health Department, in meeting their subrecipient monitoring responsibilities according to contractual and regulatory requirements (OMB Circular A-133), adopt monitoring policies and procedures to ensure subcontract providers comply with this requirement.

**Finding**

**2. Improper Application of Sliding Fee Schedule**

The Health Department did not properly apply the sliding fee schedule to clients.

Of the thirteen client encounters tested, two clients with incomes above 250% of the Federal poverty level were given 25% discounts when they were entitled to no discount, and two other clients with incomes at or below 100% of the Federal poverty level were given no discount instead of the 100% discount they were entitled to.

MDCH's Title X Family Planning Standards and Guidelines, Section 6.3.1. Charges, Billings and Collections states:

- C. A schedule of discounts must be developed and implemented with sufficient proportional increments so that inability to pay is never a barrier to service. A schedule of discounts is required for individuals with family incomes between 101% and 250% of the Federal poverty level.*
- E. Clients whose documented income is at or below 100% of the Federal poverty level must not be charged, although projects must bill all third parties authorized or legally obligated to pay for services.*

## Recommendation

We recommend that the Health Department adopt policies and procedures to ensure the Health Department and/or any subcontract providers that assess fees [Institute for Population Health (IPH) and any subcontractors of IPH] properly apply the sliding fee schedule to clients. We also recommend that the Health Department, in meeting their subrecipient monitoring responsibilities according to contractual and regulatory requirements (OMB Circular A-133), adopt monitoring policies and procedures to ensure subcontract providers comply with this requirement.

## Finding

### 3. Lack of Collection of Fees and Reimbursements

The Health Department did not make reasonable efforts to obtain first or third party payments for services and supplies.

The Code of Federal Regulations, 42 CFR Part 59.5, requires the following with respect to the collection of payments for services and supplies under the Family Planning Program:

- (a)(8) Provide that charges will be made for services to persons other than those from low-income families in accordance with a schedule of discounts based on ability to pay...*
- (a)(9) If a third party (including a Government agency) is authorized or legally obligated to pay for services, all reasonable efforts must be made to obtain the third-party payment without application of any discounts.*
- (b)(9) Provide that if family planning services are provided by contract or other similar arrangements with actual providers of services, services will be provided in accordance with a plan which establishes rates and method of payment for medical care. These payments must be made under agreements with a schedule of rates and payment procedures maintained by the grantee. The grantee must be prepared to substantiate that these rates are reasonable and necessary.*

MDCH's Title X Family Planning Standards and Guidelines, Section 6.3.1. Charges, Billings and Collections, require the implementation of policies and procedures for charging, billing, and collecting funds for services provided by the Family Planning Program. The following list includes some of the items that must be included in the policies and procedures:

- In cases where a third party is responsible, bills must be submitted to that party.*
- Reasonable efforts to collect charges without jeopardizing client confidentiality must be made.*
- A method for the "aging" of outstanding accounts must be established.*

In attempting to test compliance with the above requirements, we were unable to locate written policies and procedures of the Health Department for charging, billing, and collecting funds for services provided by the Family Planning Program. Additionally, efforts to collect charges were not evident and supporting documentation was lacking. In discussions with staff, they readily admitted there was a lack of effort in billing and collecting fees. Of thirteen client encounters tested, four clients had some level of payment responsibility; however, only one made a partial

payment on the amount due. There was no aging of outstanding accounts and evidence of collection efforts on those accounts. For encounters with third party payment liability, we were unable to test billing activity as our requests for applicable encounter information went unanswered. The lack of billing and collection efforts is evident in the amount of reported fees and collections. While \$10,000 was budgeted for 1<sup>st</sup> and 2<sup>nd</sup> Party Fees and Collections, only \$492 in donations was reported as received. While \$140,000 was budgeted for 3<sup>rd</sup> Party Fees and Collections, only \$17,028 in Medicaid was reported as received. The reported fees and collections, however, could not be traced and agreed to any supporting documentation so the accuracy of these numbers is questionable. However, it appears that there is a lack of billing and collection efforts.

Finally, it was noted that while \$150,000 was budgeted for Federal Cost Based Reimbursement, nothing was reported as received. Upon further investigation, we verified that no Federal Cost Based Reimbursement had been received in FYE 2012, so the reporting is accurate. However, we also found that the Health Department did not submit the Michigan Medicaid Cost Report to MDCH for either FYE 2011 or FYE 2012 resulting in a loss of potential revenue to fund the Family Planning Program. This is a violation of 42 CFR Part 59.5(a)(9) that requires reasonable efforts to obtain these 3<sup>rd</sup> party payments.

### **Recommendation**

We recommend that the Health Department adopt policies and procedures to ensure the Health Department and/or any subcontract providers that provide services [Institute for Population Health (IPH) and any subcontractors of IPH] make reasonable efforts to obtain first or third party payments for services and supplies. All providers of services must have billing and collection policies and procedures that address all items contained in the MDCH Title X Family Planning Standards and Guidelines, Section 6.3.1. We also recommend that the Health Department, in meeting their subrecipient monitoring responsibilities according to contractual and regulatory requirements (OMB Circular A-133), adopt monitoring policies and procedures to ensure subcontract providers comply with this requirement.

### **Finding**

#### **4. Subcontractors Operating Without Executed Contracts and Subcontracts Lack Clarity**

The Health Department did not assure subcontracts with providers were fully executed prior to the provision of services, and did not assure that subcontracts with providers contained clearly defined terms and conditions.

The MDCH Comprehensive Agreement, Part II General Provisions, III. Assurances, H. Subcontract, states:

*Assure for any subcontracted service, activity or product:*

- 1. That a written subcontract is executed by all affected parties prior to the initiation of any new subcontract activity...*
- 2. That any executed subcontract shall require the subcontractor to comply with all applicable terms and conditions of this agreement...*
- 3. That the subcontract does not affect the Contractor's accountability to the Department for the subcontracted activity.*

4. *That any billing or request for reimbursement for subcontract costs is supported by a valid subcontract and adequate source documentation on costs and services.*

Of the four subcontracts for staffing and clinics for the Family Planning Program, we noted that the following three were not executed (signed by all parties) prior to the start dates of the contracts:

<b>Subcontractor</b>	<b>Sign Date</b>	<b>Service Start Date</b>	<b>Contract End Date</b>
Dr. William Jordan	11/1/2011	7/1/2011	9/30/2013
Jordan Clinic	5/15/2012	10/1/2011	9/30/2012
Community Health and Social Services (CHASS) Health Center	6/28/2012	10/1/2011	9/30/2012

In addition to the above three subcontracts not being fully executed before the start dates of the subcontracts, we noted that while the Jordan Clinic (Midlevel Practitioners) subcontract started 7/1/2012 and was fully executed three days prior to the start date of the subcontract, services actually commenced before the start date of the subcontract and the subcontractor was paid for the services.

Additionally, we noted the following weaknesses in the subcontracts that could negatively impact the Health Department's accountability to MDCH for the subcontracted activity:

1. Both Jordan Clinic and Community Health and Social Services (CHASS) Health Center subcontracts contain a fixed rate, but contradictorily state, "any unused funds and/or resources held by the Contactor at the end of the contract period will be returned to the DHWP or treated in accordance with instructions provided by the DHWP." The subcontract does not indicate what would represent unused funds or how that would be determined. Nor is there any such determination of the amount of unused funds or return of unused funds.
2. Both Jordan Clinic and Community Health and Social Services (CHASS) Health Center subcontracts require them to assess client fees and collect third party reimbursements, but there is no required offset to amounts billed to the Health Department on the invoices. It appears that the subcontractors simply retain the funds collected.
3. Both Jordan Clinic and Community Health and Social Services (CHASS) Health Center subcontracts require them to submit invoices "in sufficient detail to provide the Agency with necessary information for payment for the proper performance of service." The subcontract does not clearly define "sufficient detail" and no detail is being provided to make a determination regarding the proper performance of services. Invoices simply contain the prorated portion of the maximum annual amount.
4. The Jordan Clinic (Midlevel Practitioners) subcontract includes a rate of "not to exceed \$25,000 which will be paid as billed," but there is no hourly rate, or minimum and maximum hours of service to be provided stated in the subcontract.
5. Dr. Jordan's subcontract includes a maximum sum not to exceed \$52,500 in any *calendar* year, with a 375 hours maximum for a *fiscal* year. The inconsistent terms make it difficult to determine compliance.

## Recommendation

We recommend that the Health Department adopt policies and procedures to ensure the Health Department and/or their subcontractor [Institute for Population Health (IPH)] ensure the execution of any subcontracts prior to the initiation of any subcontract activity. We also recommend that the Health Department and/or their subcontractor (IPH) amend subcontracts as necessary so they contain clearly defined terms and conditions, and the weaknesses identified herein are eliminated.

## Finding

### **5. Subcontractor Payments Duplicated and Payments Exceeded Approved Contract Terms**

The Health Department lacked adequate internal controls to prevent a duplicate payment to a subcontractor, and to prevent payments to subcontractors that did not agree with subcontract terms.

The MDCH Comprehensive Agreement, Part II General Provisions, III. Assurances, A. Compliance with Applicable Laws, states: *“The Contractor will comply with applicable federal and state laws, guidelines, rules and regulations in carrying out the terms of this agreement.”*

In carrying out the terms of the MDCH agreement, the Health Department must have adequate internal control systems according to 45 CFR Part 92.20 Standards for Financial Management Systems, which states:

- b. The financial management systems of other grantees and subgrantees must meet the following standards:*
  - 3. Internal control. Effective control and accountability must be maintained for all grant and subgrant cash, real and personal property, and other assets. Grantees and subgrantees must adequately safeguard all such property and must assure that it is used solely for authorized purposes.*

In our review of payments to subcontractors, we noted the following deficiencies:

1. Two separate invoices contained two of the same days (9/20/11 & 9/22/11) for Dr. Jordan and both invoices were approved for payment by the Health Department resulting in an overpayment of \$1,280.
2. Dr. Jordan's time sheets from the period 7/5/11 through 11/22/11 (not paid until January 2012 as addressed in a subsequent finding) included a rate of \$160/hour and this was approved for payment by the Health Department even though the contract rate was \$140/hour. After deducting the duplicate payment referenced above, this resulted in an overpayment of \$3,400.
3. Dr. Jordan's contract includes a \$52,500 limit per calendar year, and a 375 hour limit per fiscal year. From January 2012 through October 2012, Dr. Jordan was paid \$79,580 for services from 7/5/11 through 9/27/12. When looking only at a fiscal year of services (10/1/11 – 9/30/12), Dr. Jordan was paid \$56,860 for 401 hours of service. These are both over the limits.

4. The Jordan Clinic (Midlevel Practitioners) was paid \$2,371.20 for services from 6/25/12 through 6/29/12, prior to the contract start date of 7/1/12.
5. The Jordan Clinic (Midlevel Practitioners) was paid a total of \$30,055, but the maximum contract amount was \$25,000.

An adjustment to remove the overpayments (for items 1, 2, and 5 above) and related administrative expense by the Health Department's fiduciary (Southeastern Michigan Health Association) are shown on the attached Statement of MDCH Grant Program Revenues and Expenditures. While there is no impact on MDCH Grant funds due to other audit adjustments, the Health Department should take action to recover funds related to the overpayments.

### **Recommendation**

We recommend that the Health Department and/or their subcontractor [Institute for Population Health (IPH)] implement effective internal control systems to ensure duplicate payments to subcontractors do not occur, and payments to subcontractors comply with subcontract terms.

### **Finding**

#### **6. Subcontractor Monitoring Lacking**

The Health Department did not perform necessary monitoring of the subcontract agencies to ensure the subcontractors performed in accordance with the terms and conditions of their subcontracts, and in compliance with Title X standards and guidelines.

The Southeastern Michigan Health Association, on behalf of the Health Department, subcontracts with Jordan Clinic and the Community Health and Social Services (CHASS) Health Center to provide Family Planning Program services. The subcontracts state that the Health Department will conduct an annual site visit to assure that the subcontractor is in compliance with established Title X standards and guidelines. This was not done as required by the subcontracts. This is also a violation of Federal Regulation that requires the following at 45 CFR Part 92.36 b. Procurement Standards:

2. *Grantees and subgrantees will maintain a contract administration system which ensures that contractors perform in accordance with the terms, conditions, and specifications of their contracts or purchase orders.*

### **Recommendation**

We recommend that the Health Department and/or their subcontractor [Institute for Population Health (IPH)] implement an effective contract administration system to ensure the subcontractors comply with the terms and conditions of their subcontracts.

## **Finding**

### **7. Reported Costs Lacked Adequate Supporting Documentation**

The Health Department approved payment for an invoice without adequate supporting documentation.

The Health Department's contract with MDCH (Part II, Section III, Part A.) requires compliance with OMB Circular A-87 (located at 2 CFR Part 225). For costs to be allowable under Federal awards, costs must be adequately documented. According to Appendix A of 2 CFR Part 225 (OMB Circular A-87): "*C.1.j. To be allowable under Federal awards, costs must...Be adequately documented.*"

The Health Department approved payment for an invoice for over \$10,000 for nurse practitioner/provider and administrative expenses for the month of July 2011 (paid in January 2012), but the invoice information of 1.5 FTEs did not agree with the hourly detail provided, and a contract could not be located to support the rate paid or the administrative fee. An adjustment is not being proposed relating to this finding since the FYE 2011 expense is being addressed and adjusted in another finding (Finding 10).

## **Recommendation**

We recommend that the Health Department and/or their subcontractor [Institute for Population Health (IPH)] take action to ensure reported costs are supported by adequate supporting documentation as required by OMB Circular A-87.

## **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 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 exceptions with accounting records not supporting amounts reported on FSRs (Finding 8), unreported salaries and fringes expenditures (Finding 9), prior fiscal year invoices paid in subsequent year (Finding 10), unsupported indirect administration and overhead expenses (Finding 11) and costs not related to the Family Planning Program reported as Family Planning Program expenditures (Finding 12).

## **Finding**

### **8. Accounting Records Do Not Support Amounts Reported on FSR**

The Health Department reported salaries and wages, and fringe benefits on the Financial Status Report that could not be traced and agreed to accounting records.

The MDCH Comprehensive Agreement, Part II General Provisions, III. Assurances, A. Compliance with Applicable Laws, states: *“The Contractor will comply with applicable federal and state laws, guidelines, rules and regulations in carrying out the terms of this agreement.”*

In carrying out the terms of the MDCH agreement, the Health Department must have adequate accounting records that identify the use of funds according to 45 CFR Part 92.20 Standards for Financial Management Systems, which states:

- b. The financial management systems of other grantees and subgrantees must meet the following standards:*
  - 2. Accounting records. Grantees and subgrantees must maintain records which adequately identify the source and application of funds provided for financially-assisted activities. These records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income.*

The Health Department reported \$86,872 in salaries and wages, and \$92,512 in fringe benefits for a total of \$179,384; but could not provide detailed support from a general ledger for each amount including payroll postings, and could not support the total reported. The only support provided was a total of \$169,384 from the City’s general ledger. Additionally, no explanation was provided for the variance of \$10,000 specifically identified on the Health Department’s printout.

Adjustments to reduce salaries and wages, and fringe benefits by a total of \$10,000 to the total included in the Health Department’s general ledger are shown on the attached Statement of MDCH Grant Program Revenues and Expenditures.

### **Recommendation**

We recommend that the Health Department and/or their subcontractor [Institute for Population Health (IPH)] implement effective accounting systems to ensure reported revenues and expenditures are adequately supported by accounting records, including, but not limited to a general ledger that identifies all financial transactions.

### **Finding**

#### **9. Unreported Salaries and Wages, and Fringe Benefits**

The Health Department’s Payroll Cost Center Charges Reports for Family Planning did not agree with the amount reported in the City’s general ledger, and did not include all employees who worked 100% in the Family Planning Program.

The Health Department’s Payroll Cost Center Charges Reports for Family Planning showed \$159,653 for salaries, wages, and fringes, but the City’s general ledger showed \$169,384. The reason for the difference could not be determined as no detail was available to support the general ledger amount. Additionally, we noted that three employees that worked 100% on the Family Planning Program were not properly coded to the Family Planning Program.

The MDCH Comprehensive Agreement, Part II General Provisions, IV. Payment and Reporting Procedures, D. Financial Status Report Submission, states: *“FSRs must report total actual program expenditures regardless of the source of funds.”*

OMB Circular A-87, Appendix A, Section C.1., states for costs to be allowable under Federal awards, costs must meet the following general criteria: *“b. Be allocable to Federal awards under the provisions of 2 CFR Part 225.”*

The costs for the three employees were allocable to the Family Planning Program as evidenced by the Personnel Activity Report Certifications, and the total actual program expenditures must be reported according to the MDCH Contract. Furthermore, a periodic reconciliation should be done to ensure that the salary and fringe costs according to the Payroll Cost Center Charges Reports agree to the amounts recorded in the general ledger.

Adjustments to increase salaries and wages, and fringes benefits to the amount supported by the Payroll Cost Center Charges Reports including all employees designated as 100% Family Planning Program employees are included on the attached Statement of MDCH Grant Program Revenues and Expenditures.

### **Recommendation**

We recommend that the Health Department and/or their subcontractor [Institute for Population Health (IPH)] implement effective accounting systems to ensure payroll records reconcile to the general ledger, and all employees are coded correctly to ensure employees' wages and benefits are charged to the proper program.

### **Finding**

#### **10. Prior Fiscal Year Invoices Paid in Subsequent Year**

The Health Department allowed their fiduciary, Southeastern Michigan Health Association, to report expenditures on both the cash basis and accrual basis resulting in \$39,974 of FYE 2011 expenditures being reported to the Health Department and to MDCH in FYE 2012.

The Health Department contracts with Southeastern Michigan Health Association (SEMHA) to pay the expenditures approved by the Health Department. At the end of September 2011, SEMHA had reached their budgeted amount for the year. Rather than accrue for the known invoices because this would place SEMHA over their budgeted amount, SEMHA held the invoices and paid them in FYE 2012. Additionally, SEMHA accrued for FYE 2012 expenditures at the end of FYE 2012.

MDCH's FSR Instructions require the reporting of expenditures on cash OR accrued basis. MDCH's FSR Instructions do not permit a combination of bases depending on the availability of resources. Rather, one method must be used and applied year after year to ensure consistency. According to MDCH's agreement with the Health Department, this requirement must also pass through to the subcontract agency, SEMHA.

Adjustments to remove \$39,974 of FYE 2011 expenditures and related administrative expense by the Health Department's fiduciary (Southeastern Michigan Health Association) from FYE 2012 are shown on the attached Statement of MDCH Grant Program Revenues and Expenditures. (Note that the adjustment for this finding has been reduced to \$37,815 due to previous adjustments already removing some of the FYE 2011 expenditures due to duplicate payments and wrong rates.)

### **Recommendation**

We recommend that the Health Department and/or their subcontractor [Institute for Population Health (IPH)] take action to ensure a consistent reporting basis (preferably accrual) is adopted by themselves and any applicable fiduciary contractor such as SEMHA. The required reporting basis should be included in any subcontract. We also recommend that the Health Department, in meeting their subrecipient monitoring responsibilities according to contractual and regulatory requirements (OMB Circular A-133), adopt monitoring policies and procedures to ensure subcontract providers comply with this requirement.

### **Finding**

#### **11. Unsupported Indirect Administration and Overhead Expenses**

The Health Department could not adequately support the amount reported for indirect administration and overhead expenses.

When attempting to identify the methodology used in calculating the reported \$45,572 in indirect administration and overhead expenses, and attempting to locate and test support for the indirect cost pool and indirect distribution base, we identified numerous exceptions as follows:

1. The amount reported for indirect administration and overhead expenses of \$45,572 for FYE 2012 appears to be nothing more than a balancing line on the FSR so that total revenues equal total expenditures for the Family Planning Program. The 3<sup>rd</sup> quarter FSR had a total amount of \$63,219 for indirect administration and overhead expenses that could not be traced and agreed to any supporting documentation. Then, it appears an adjustment of (\$17,647) was made on the 4<sup>th</sup> quarter FSR so that total revenues would equal total expenditures for the Family Planning Program.
2. The Health Department could not provide an explanation or support for their 2-step allocation methodology for indirect administration and overhead expenses calculation. When asked, staff indicated that it is done by their accounting software and they did not know how it was calculated.
3. Vision Program expenses were treated as indirect costs and spread to numerous programs, including the Family Planning Program, that receive no benefit from Vision Program expenses.
4. From a sample of expenses included in the indirect administration and overhead cost pool including accruals, support could not be provided for over 40% of them.

The Health Department's contract with MDCH (Part II, Section IV., Part D.) requires that the: *"FSR's must report total actual expenditures regardless of the source of funds."*

The Health Department's contract with MDCH (Part II, Section III, Part A.) requires compliance with OMB Circular A-87 (located at 2 CFR Part 225). OMB Circular A-87 states the following with respect to the composition of cost at Appendix A, Section D.:

1. *Total cost. The total cost of Federal awards is comprised of the allowable direct cost of the program, plus its allocable portion of allowable indirect costs, less applicable credits.*

For costs to be allowable under Federal awards, costs must be allocable to Federal awards under the provisions of 2 CFR Part 225 and adequately documented. According to Appendix A of 2 CFR Part 225:

- C.1.b. *To be allowable under Federal awards, costs must...Be allocable to Federal awards under the provisions of 2 CFR part 225.*
- C.1.j. *To be allowable under Federal awards, costs must...Be adequately documented.*
- C.3.a. *A cost is allocable to a particular cost objective if the goods or services involved are chargeable or assignable to such cost objective in accordance with relative benefits received.*

Indirect costs and the allocation methodology were not adequately supported. Furthermore, costs that should have been treated as direct costs were inappropriately treated as indirect costs and spread to programs receiving no benefit. Our analysis, however, indicated that the reported indirect administration and overhead expenses for the Family Planning Program were likely understated. No adjustment will be made as there would be no impact on MDCH funding since the full grant amount was used.

### **Recommendation**

We recommend that the Health Department and/or their subcontractor [Institute for Population Health (IPH)] take action to ensure reported costs include total indirect costs that are supported by an indirect cost allocation methodology that complies with OMB Circular A-87, and adequate supporting documentation.

### **Finding**

#### **12. Costs Unrelated to Family Planning Program Reported as Family Planning Expense**

The Health Department improperly reported \$10,000 in expenditures related to a child death review project as Family Planning Program costs.

The Health Department's contract with MDCH (Part II, Section III, Part A.) requires compliance with OMB Circular A-87 (located at 2 CFR Part 225). For costs to be allowable under Federal awards, costs must be allocable to Federal awards under the provisions of 2 CFR Part 225 and adequately documented. According to Appendix A of 2 CFR Part 225:

- C.1.b. *To be allowable under Federal awards, costs must...Be allocable to Federal awards under the provisions of 2 CFR part 225.*

- C.1.j. To be allowable under Federal awards, costs must...Be adequately documented.*
- C.3.a. A cost is allocable to a particular cost objective if the goods or services involved are chargeable or assignable to such cost objective in accordance with relative benefits received.*

In our expense testing, we noted two payments of \$5,000 each to a contractor, and requested the contract to support the expense and the applicability to the Family Planning Program. We were provided with a 2-year contract for \$20,000 that relates to child death review services, which is not a Family Planning Program activity.

An adjustment to remove the unallowable expenditure including the related administrative expense by the Health Department's fiduciary (Southeastern Michigan Health Association) from FYE 2012 is shown on the attached Statement of MDCH Grant Program Revenues and Expenditures.

### **Recommendation**

We recommend that the Health Department and/or their subcontractor [Institute for Population Health (IPH)] take action to ensure expenditures are properly reported with applicable grants in accordance with the allowed activities for the grant.

## **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, 2012, is \$838,429. The attached Statement of MDCH Grant Program Revenues and Expenditures shows the budgeted, reported, and allowable costs. The audit made no adjustments affecting Family Planning grant program funding.

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

	BUDGETED	REPORTED	AUDIT ADJUSTMENT	ALLOWABLE
<b>REVENUES:</b>				
MDCH Grant	\$838,429	\$838,429 <sup>1</sup>	\$0	\$838,429
Fees 1st & 2nd Party	\$10,000	\$492	\$0	\$492
Fees & Collections - 3rd Party	\$140,000	\$17,028	\$0	\$17,028
Federal Cost Based	\$150,000	\$0	\$0	\$0
Local Funds	\$0	\$0	\$8,672	\$8,672
<b>TOTAL REVENUES</b>	<b>\$1,138,429</b>	<b>\$855,949</b>	<b>\$8,672</b>	<b>\$864,621</b>
<b>EXPENDITURES:</b>				
Salary and Wages	\$132,800	\$86,872	(\$4,843) <sup>3</sup> \$39,788 <sup>4</sup>	\$121,817
Fringe Benefits	\$123,504	\$92,512	(\$5,157) <sup>3</sup> \$37,421 <sup>4</sup>	\$124,776
Contractual	\$682,885	\$630,993	(\$10,222) <sup>2</sup> (\$37,815) <sup>5</sup> (\$10,500) <sup>6</sup>	\$572,456
Travel	\$3,500	\$0	\$0	\$0
Other Expenses	\$77,950	\$0	\$0	\$0
Adm & Overhead	\$117,790	\$45,572	\$0	\$45,572
<b>TOTAL EXPENDITURES</b>	<b>\$1,138,429</b>	<b>\$855,949</b>	<b>\$8,672</b>	<b>\$864,621</b>

- 1 Actual MDCH payments provided on a performance reimbursement basis
- 2 Overpayments on subcontracts (Finding 5).
- 3 Unsupported salaries and wages, and fringe benefits (Finding 8).  
(\$10,000 adjustment allocated to salary and fringes according to original reporting)
- 4 Unreported salaries and wages, and fringe benefits (Finding 9).
- 5 Remove FYE 2011 expenditures (Finding 10).
- 6 Remove costs related to another program (Finding 12).

## Corrective Action Plan

**Finding Number:** 1

**Page Reference:** 2

**Finding:** Lack of Cost Analysis in Determining Fee Schedule

The Health Department could not evidence the use of a recent cost analysis in developing their fee schedule for supplies and services.

**Recommendation:** Adopt policies and procedures to ensure the Health Department and/or any subcontract providers that assess fees [Institute for Population Health (IPH) and any subcontractors of IPH] utilize recent cost analyses to develop fee schedules designed to recover the reasonable costs of providing services. In meeting subrecipient monitoring responsibilities according to contractual and regulatory requirements (OMB Circular A-133), adopt monitoring policies and procedures to ensure subcontract providers comply with this requirement.

**Comments:** The Health Department has determined that this is a valid finding because according to MDCH's Title X Family Planning Standards and Guidelines, Section 6.3.1. Charges, Billings and Collections state that a recent cost analysis, as defined as one being conducted within the last three years, or within one year following major changes to the program, and that that cost analysis be used to set the current fees the agency chooses to set.

**Corrective Action:** The Health Department plans to make sure that a cost analysis is conducted and that it is used to set fees for services performed by the Family Planning Program. The Health Department also plans to ensure that policies and procedures are updated to reflect this requirement. The Health Department will also update the policies and procedures for subrecipient monitoring to ensure that the Institute for Population Health (IPH), and any other subcontractors comply with this requirement.

**Anticipated  
Completion Date:** By 9/30/2014

## Corrective Action Plan

**Finding Number:** 2

**Page Reference:** 3

**Finding:** Improper Application of Sliding Fee Schedule

The Health Department did not properly apply the sliding fee schedule.

**Recommendation:** Adopt policies and procedures to ensure the Health Department and/or any subcontract providers that assess fees [Institute for Population Health (IPH) and any subcontractors of IPH] properly apply the sliding fee schedule to clients. In meeting subrecipient monitoring responsibilities according to contractual and regulatory requirements (OMB Circular A-133), adopt monitoring policies and procedures to ensure subcontract providers comply with this requirement.

**Comments:** The Health Department has determined that this is a valid finding because according to MDCH's Title X Family Planning Standards and Guidelines, Section 6.3.1. Charges, Billings and Collections states that a schedule of discounts must be developed with sufficient proportional increments that inability to pay is never a barrier to service and that the schedule is applied to all individuals with family income of between 101% to 250% of the Federal; poverty level. Also, those clients with documented income at or below 100% of the federal poverty level must **not** be charged, although the program must bill all third parties authorized or obligated to pay for services.

**Corrective Action:** The Health Department plans to adopt policies and procedures to ensure that the sliding fee schedule is properly applied to clients' documented income. The Health Department will also update the policies and procedures for sub-recipient monitoring to ensure that the Institute for Population Health (IPH), and any other subcontractors comply with this requirement.

**Anticipated  
Completion Date:** By 9/30/2014

## Corrective Action Plan

**Finding Number:** 3

**Page Reference:** 4

**Finding:** Lack of Collection of Fees and Reimbursements

The Health Department did not make reasonable efforts to obtain first or third party payments for services and supplies.

**Recommendation:** Adopt policies and procedures to ensure the Health Department and/or any subcontract providers that provide services [Institute for Population Health (IPH) and any subcontractors of IPH] make reasonable efforts to obtain first or third party payments for services and supplies. All providers of services must have billing and collection policies and procedures that address all items contained in the MDCH Title X Family Planning Standards and Guidelines, Section 6.3.1. In meeting subrecipient monitoring responsibilities according to contractual and regulatory requirements (OMB Circular A-133), adopt monitoring policies and procedures to ensure subcontract providers comply with this requirement.

**Comments:** The Health Department has determined that this is a valid finding because according to the Code of Federal Regulations, 42 CFR Part 59.5 requires:

*(a)(8) Provide that charges will be made for services to persons other than those from low-income families in accordance with a schedule of discounts based on ability to pay...*

*(a)(9) If a third party (including a Government agency) is authorized or legally obligated to pay for services, all reasonable efforts must be made to obtain the third-party payment without application of any discounts.*

*(b)(9) Provide that if family planning services are provided by contract or other similar arrangements with actual providers of services, services will be provided in accordance with a plan which establishes rates and method of payment for medical care. These payments must be made under agreements with a schedule of rates and payment procedures maintained by the grantee. The grantee must be prepared to substantiate that these rates are reasonable and necessary.*

In addition, MDCH's Title X Family Planning Standards and Guidelines, Section 6.3.1. Charges, Billings and Collections states:

- *In cases where a third party is responsible, bills must be submitted to that party.*
- *Reasonable efforts to collect charges without jeopardizing client confidentiality must be made.*
- *A method for the "aging" of outstanding accounts must be established.*

**Corrective Action:** The Health Department plans to adopt policies and procedures to ensure that a reasonable and diligent effort is made to collect all first and third party fees and billings owed to the program, including working from an established aged receivable report and the annual completion of the Medicaid Cost Report. The Health Department will also update the policies and procedures for sub-recipient monitoring to ensure that the Institute for Population Health (IPH), and any other subcontractors comply with this requirement.

**Anticipated  
Completion Date:** By 9/30/2014

## Corrective Action Plan

**Finding Number:** 4

**Page Reference:** 5

**Finding:** Subcontractors Operating Without Executed Contracts and Subcontracts Lack Clarity

The Health Department did not assure subcontracts with providers were fully executed prior to the provision of services, and did not assure that subcontracts with providers contained clearly defined terms and conditions.

**Recommendation:** Adopt policies and procedures to ensure the Health Department and/or their subcontractor [Institute for Population Health (IPH)] ensure the execution of any subcontracts prior to the initiation of any subcontract activity. Amend subcontracts as necessary so they contain clearly defined terms and conditions, and the weaknesses identified within this report are eliminated.

**Comments:** The Health Department has determined that this is a valid finding because according to the MDCH Comprehensive Agreement, Part II General Provisions, III. Assurances, H. Subcontract, states:

*Assure for any subcontracted service, activity or product:*

- 1. That a written subcontract is executed by all affected parties prior to the initiation of any new subcontract activity...*
- 2. That any executed subcontract shall require the subcontractor to comply with all applicable terms and conditions of this agreement...*
- 3. That the subcontract does not affect the Contractor's accountability to the Department for the subcontracted activity.*
- 4. That any billing or request for reimbursement for subcontract costs is supported by a valid subcontract and adequate source documentation on costs and services.*

**Corrective Action:** The Health Department has adopted policies and procedures that ensures that the execution of any subcontracts is done prior to any subcontract activity. The Health Department will also update the policies and procedures for sub-recipient monitoring to ensure that the Institute for Population Health (IPH), and any other subcontractors comply with this requirement.

**Anticipated  
Completion Date:** Completed

**MDCH Response:** Part of the recommendation was to amend subcontracts as necessary so they contain clearly defined terms and conditions, and the weaknesses identified within this report are eliminated. A response was not provided on that component of the recommendation. Action is needed to ensure subcontracts are amended as necessary so they contain clearly defined terms and conditions, and the weaknesses identified within this report are eliminated.

## Corrective Action Plan

**Finding Number:** 5

**Page Reference:** 7

**Finding:** Subcontractor Payments Duplicated and Payments Exceeded Approved Contract Terms

The Health Department lacked adequate internal controls to prevent a duplicate payment to a subcontractor, and to prevent payments to subcontractors that did not agree with subcontract terms.

**Recommendation:** Implement effective internal control systems to ensure duplicate payments to subcontractors do not occur, and payments to subcontractors comply with subcontract terms.

**Comments:** The Health Department has determined that this is a valid finding because according to 45 CFR Part 92.20 Standards for Financial Management Systems:

*b. The financial management systems of other grantees and subgrantees must meet the following standards:*

*3. Internal control. Effective control and accountability must be maintained for all grant and subgrant cash, real and personal property, and other assets. Grantees and subgrantees must adequately safeguard all such property and must assure that it is used solely for authorized purposes.*

**Corrective Action:** The Health Department plans to adopt policies and procedures to ensure that effective internal control systems are developed and maintained to ensure duplicate payments to subcontractors do not occur, and that subcontractors comply with contract terms. The Health Department will also update the policies and procedures for sub-recipient monitoring to ensure that the Institute for Population Health (IPH), and any other subcontractors comply with this requirement.

**Anticipated Completion Date:** By 9/30/2014

## Corrective Action Plan

**Finding Number:** 6

**Page Reference:** 8

**Finding:** Subcontractor Monitoring Lacking

The Health Department did not perform necessary monitoring of the subcontract agencies to ensure the subcontractors performed in accordance with the terms and conditions of their subcontracts, and in compliance with Title X standards and guidelines.

**Recommendation:** Implement an effective contract administration system to ensure the subcontractors comply with the terms and conditions of their subcontracts.

**Comments:** The Health Department has determined that this is a valid finding because according to 45 CFR Part 92.36 b. Procurement Standards:

- 2. Grantees and subgrantees will maintain a contract administration system which ensures that contractors perform in accordance with the terms, conditions, and specifications of their contracts or purchase orders.*

**Corrective Action:** The Health Department has adopted policies and procedures that ensure that an effective contract administration system is implemented and maintained underneath the Health Department's internal control systems, to ensure that subcontractors comply with the terms and conditions of their subcontracts. The Health Department will also update the policies and procedures for sub-recipient monitoring to ensure that the Institute for Population Health (IPH), and any other subcontractors comply with this requirement.

**Anticipated**

**Completion Date:** 10/1/2013 by establishing the Compliance and Assurance Office

## Corrective Action Plan

**Finding Number:** 7

**Page Reference:** 9

**Finding:** Reported Costs Lacked Adequate Supporting Documentation

The Health Department approved payment for an invoice without adequate supporting documentation.

**Recommendation:** Take action to ensure reported costs are supported by adequate supporting documentation as required by OMB Circular A-87.

**Comments:** The Health Department has determined that this is a valid finding because MDCH's contract (Part II, Section III, Part A.) requires compliance with OMB Circular A-87 (located at 2 CFR Part 225). For costs to be allowable under Federal awards, costs must be adequately documented. According to Appendix A of 2 CFR Part 225 (OMB Circular A-87):

*C.1.j. To be allowable under Federal awards, costs must...Be adequately documented.*

**Corrective Action:** The Health Department plans to adopt policies and procedures to ensure that an effective accounting system is implemented and maintained underneath the Health Department's internal control systems, to ensure that reported revenues and expenditures are adequately supported by accounting records, which are supported by adequate supporting documentation as required by OMB Circular A-87. The Health Department will also update the policies and procedures for sub-recipient monitoring to ensure that the Institute for Population Health (IPH), and any other subcontractors comply with this requirement.

**Anticipated  
Completion Date:** By 9/30/2014

## Corrective Action Plan

**Finding Number:** 8

**Page Reference:** 9

**Finding:** Accounting Records Do Not Support Amounts Reported on FSR

The Health Department reported salaries and wages, and fringe benefits on the Financial Status Report that could not be traced and agreed to accounting records.

**Recommendation:** Implement effective accounting systems to ensure reported revenues and expenditures are adequately supported by accounting records, including, but not limited to a general ledger that identifies all financial transactions.

**Comments:** The Health Department has determined that this is a valid finding because according to 45 CFR Part 92.20 Standards for Financial Management Systems:

- b. The financial management systems of other grantees and subgrantees must meet the following standards:*
  - 2. Accounting records. Grantees and subgrantees must maintain records which adequately identify the source and application of funds provided for financially-assisted activities. These records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income.*

**Corrective Action:** The Health Department plans to adopt policies and procedures to ensure that an effective accounting system is implemented and maintained underneath the Health Department's internal control systems, to ensure that adequate accounting records are maintained to identify the source of funds, and are supported by adequate supporting documentation as required by OMB Circular A-87. The Health Department will also update the policies and procedures for sub-recipient monitoring to ensure that the Institute for Population Health (IPH), and any other subcontractors comply with this requirement.

**Anticipated  
Completion Date:** By 9/30/2014

## Corrective Action Plan

**Finding Number:** 9

**Page Reference:** 10

**Finding:** Unreported Salaries and Wages, and Fringe Benefits

The Health Department's Payroll Cost Center Charges Reports for Family Planning did not agree with the amount reported in the City's general ledger, and did not include all employees who worked 100% in the Family Planning Program.

**Recommendation:** Implement effective accounting systems to ensure payroll records reconcile to the general ledger, and all employees are coded correctly to ensure employees' wages and benefits are charged to the proper program.

**Comments:** The Health Department has determined that this is a valid finding because according to the MDCH Comprehensive Agreement, Part II General Provisions, IV. Payment and Reporting Procedures, D. Financial Status Report Submission, "*FSRs must report total actual program expenditures regardless of the source of funds.*" In addition, OMB Circular A-87, Appendix A, Section C.1., states for costs to be allowable under Federal awards, costs must meet the following general criteria: "*b. Be allocable to Federal awards under the provisions of 2 CFR Part 225.*"

**Corrective Action:** The Health Department plans to adopt policies and procedures to ensure that an effective accounting system is implemented and maintained underneath the Health Department's internal control systems, to ensure that payroll records reconcile to accounting records in the general ledger, that employees are correctly coded to the proper programs, and/or activities, and are supported by adequate supporting documentation as required by OMB Circular A-87. The Health Department will also update the policies and procedures for sub-recipient monitoring to ensure that the Institute for Population Health (IPH), and any other subcontractors comply with this requirement.

**Anticipated**

**Completion Date:** By 9/30/2014

## Corrective Action Plan

**Finding Number:** 10

**Page Reference:** 11

**Finding:** **Prior Fiscal Year Invoices Paid in Subsequent Year**

The Health Department allowed their fiduciary, Southeastern Michigan Health Association, to report expenditures on both the cash basis and accrual basis resulting in \$39,974 of FYE 2011 expenditures being reported to the Health Department and to MDCH in FYE 2012.

**Recommendation:** Take action to ensure a consistent reporting basis (preferably accrual) is adopted by the Health Department and any applicable fiduciary contractor such as SEMHA. The required reporting basis should be included in any subcontract. In meeting subrecipient monitoring responsibilities according to contractual and regulatory requirements (OMB Circular A-133), adopt monitoring policies and procedures to ensure subcontract providers comply with this requirement.

**Comments:** The Health Department has determined that this is a valid finding because according to 45 CFR Part 92.23 Period of availability of funds:

*(a) General. Where a funding period is specified, a grantee may charge to the award only costs resulting from obligations of the funding period unless carryover of unobligated balances is permitted, in which case the carryover balances may be charged for costs resulting from obligations of the subsequent funding period.*

**Corrective Action:** The Health Department plans to adopt policies and procedures to ensure that an effective accounting system is implemented and maintained underneath the Health Department's internal control systems, to ensure that accounting records and supporting documentation qualify and are recorded in the proper period of availability. The Health Department will also update the policies and procedures for sub-recipient monitoring to ensure that the Institute for Population Health (IPH), and any other subcontractors comply with this requirement.

**Anticipated  
Completion Date:** By 9/30/2014

## Corrective Action Plan

**Finding Number:** 11

**Page Reference:** 12

**Finding:** Unsupported Indirect Administration and Overhead Expenses

The Health Department could not adequately support the amount reported for indirect administration and overhead expenses.

**Recommendation:** Take action to ensure reported costs include total indirect costs that are supported by an indirect cost allocation methodology that complies with OMB Circular A-87, and adequate supporting documentation.

**Comments:** The Health Department has determined that this is a valid finding because the Health Department's contract with MDCH (Part II, Section III, Part A.) requires compliance with OMB Circular A-87 (located at 2 CFR Part 225). OMB Circular A-87 states the following with respect to the composition of cost at Appendix A, Section D.:

1. *Total cost. The total cost of Federal awards is comprised of the allowable direct cost of the program, plus its allocable portion of allowable indirect costs, less applicable credits.*

In addition, for costs to be allowable under Federal awards, costs must be allocable to Federal awards under the provisions of 2 CFR Part 225 and adequately documented. According to Appendix A of 2 CFR Part 225:

- C.1.b. To be allowable under Federal awards, costs must...Be allocable to Federal awards under the provisions of 2 CFR part 225.*
- C.1.j. To be allowable under Federal awards, costs must...Be adequately documented.*
- C.3.a. A cost is allocable to a particular cost objective if the goods or services involved are chargeable or assignable to such cost objective in accordance with relative benefits received.*

**Corrective Action:** The Health Department plans to adopt policies and procedures to ensure that an effective accounting system is implemented and maintained underneath the Health Department's internal control systems, to ensure that adequate accounting records are maintained to identify the source of

funds, and are supported by adequate supporting documentation as required by OMB Circular A-87. The Health Department will also ensure that indirect costs are supported by an appropriate indirect cost allocation methodology that complies with OMB Circular A-87. The Health Department will also update the policies and procedures for sub-recipient monitoring to ensure that the Institute for Population Health (IPH), and any other subcontractors comply with this requirement.

**Anticipated  
Completion Date:** By 9/30/2014

## Corrective Action Plan

**Finding Number:** 12

**Page Reference:** 13

**Finding:** Costs Unrelated to Family Planning Program Reported as Family Planning Expense

The Health Department improperly reported \$10,000 in expenditures related to a child death review project as Family Planning Program costs.

**Recommendation:** Take action to ensure expenditures are properly reported with applicable grants in accordance with the allowed activities for the grant.

**Comments:** The Health Department has determined that this is a valid finding because the Health Department's contract with MDCH (Part II, Section III, Part A.) requires compliance with OMB Circular A-87 (located at 2 CFR Part 225). For costs to be allowable under Federal awards, costs must be allocable to Federal awards under the provisions of 2 CFR Part 225 and adequately documented. According to Appendix A of 2 CFR Part 225:

*C.1.b. To be allowable under Federal awards, costs must...Be allocable to Federal awards under the provisions of 2 CFR part 225.*

*C.1.j. To be allowable under Federal awards, costs must...Be adequately documented.*

*C.3.a. A cost is allocable to a particular cost objective if the goods or services involved are chargeable or assignable to such cost objective in accordance with relative benefits received.*

**Corrective Action:** The Health Department plans to adopt policies and procedures to ensure that an effective accounting system is implemented and maintained underneath the Health Department's internal control systems, to ensure that reported revenues and expenditures are adequately supported by accounting records, which are supported by adequate supporting documentation as required by OMB Circular A-87. The Health Department will also update the policies and procedures for sub-recipient monitoring to ensure that the Institute for Population Health (IPH), and any other subcontractors comply with this requirement.

**Anticipated  
Completion Date: By 9/30/2014**