

# Audit Report

District Health Department #4  
Family Planning Program

October 1, 2008 – September 30, 2009



Office of Audit  
Quality Assurance and Review Section  
October 2010



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JANET OLSZEWSKI  
DIRECTOR

October 19, 2010

John Bruning, Health Officer  
District Health Department #4  
100 Woods Circle  
Alpena, Michigan 49707

Dear Mr. Bruning:

Enclosed is our final report from the Michigan Department of Community Health (MDCH) fiscal review of the District Health Department #4 Family Planning Program for the period October 1, 2008 through September 30, 2009.

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; Cost vs. Amounts Billed for Supplies and Services Schedule, and Corrective Action Plans. The Corrective Action Plans contain the agency's paraphrased response to each finding contained in the Preliminary Analysis.

Thank you for the cooperation extended our auditors.

Sincerely,

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

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

cc: Paulette Dobyne Dunbar, Manager, Division of Family and Community Health  
Pam Myers, Director, Office of Audit  
David Figg, Audit Manager, Office of Audit

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## **DESCRIPTION OF AGENCY**

The District Health Department #4 (Health Department) is governed under the Public Health Code, Act 368 of 1978. The Health Department is a Special Revenue Fund of Alpena County, and the administrative office is located in Alpena, Michigan. The Health Department operates under the legal supervision and control of the Board of Health, which is comprised of commissioners of the counties of Alpena, Cheboygan, Montmorency and Presque Isle. The Health Department provides community health program services to the residents of these four counties. These service programs include: Food Service Sanitation, On-Site Sewage, Drinking Water, Vision Screening, Hearing Screening, Immunizations, General Communicable Disease Control AIDS/HIV Prevention, Medicaid Outreach, Breast and Cervical Cancer Control Program, Children's Special Health Care Services, Bioterrorism/Emergency Preparedness/Pandemic Flu, Child Health, Women Infants and Children (WIC) Supplemental Food Program, and Family Planning Program.

## **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 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 Health Department's records and activities for the fiscal period October 1, 2008 to September 30, 2009. Our review procedures included the following:

- Reviewed the most recent Alpena County Single Audit report for any Family Planning Program concerns.
- Completed the 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 Health Department's effectiveness 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 lease agreements (Finding 2).

## **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 accuracy of accounting for inventory of Family Planning medical supplies and drugs. A log is maintained for each supply item; however, it is only used to keep track of the expiration date of each lot and the quantity sent to various clinics.

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 log 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.

## **Finding**

### **2. Lease Agreements Not Current**

Two of the Health Department's building lease agreements are not current.

The Health Department lease for space in the Presque Isle County courthouse has not been updated since 2004. Also, the 20-year lease for the Cheboygan County space was not formally amended to reflect the increase in monthly payments from \$6,312.33 to \$6,700.00.

Maintaining current lease agreements protects all parties involved in the event of disputes over cost or usage.

## **Recommendation**

We recommend that the Health Department execute current lease agreements for all facilities.

## 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 generally reported their Family Planning Program financial activity to MDCH in accordance with applicable MDCH requirements and agreements, applicable federal standards, and generally accepted accounting principles. However, we noted exceptions with Billing Rates (Finding 3), and Unreported Medicaid Settlement (Finding 4).

### Finding

#### **3. Billing Rates Not Sufficient to Recover Cost**

The billing rates used for Family Planning services and supplies by the Health Department 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.

For our test, we multiplied the billing rate for each service and supply times the number of times each service/supply was provided during the year. 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 \$264,150 we found the rates used would not recover approximately \$48,719 of the cost (see Schedule of Costs vs. Amounts Billed for Services and Supplies on page 7).

Title X regulations at 42CFR59.5 (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 can not 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 clients was paid from local revenues. Because the amount recovered from all clients was \$25,065, and billing rates were about 18.4% under cost, we can estimate the effect was approximately \$5,668 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.

**Finding**

**4. Unreported Medicaid Settlement**

The Health Department did not report Family Planning Medicaid Settlement revenue received.

The Health Department received Family Planning Medicaid settlement revenue of \$35,294 which was not reported. The adjustment for the unreported Medicaid revenue caused a shift in the use of M&CH Block grant funds from Family Planning to other eligible programs such as Immunization, as shown on the attached Statement of MDCH Grant Program Revenues and Expenditures. This adjustment did not affect MDCH Grant Funds.

Per MDCH Financial Status Report instructions, all fees and collections applicable to a program are to be reported on the Financial Status Report.

**Recommendation**

We recommend that the Health Department ensure that all applicable Family Planning Program revenues received are reported on the Financial Status Reports to MDCH.

**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, 2009, is \$99,771. 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.

**District Health Department #4  
Family Planning Program  
Statement of MDCH Grant Program Revenues and Expenditures  
10/1/08 - 9/30/09**

	<b>BUDGETED</b>	<b>REPORTED</b>	<b>AUDIT ADJUSTMENT</b>	<b>ALLOWABLE</b>
<b>REVENUES:</b>				
MDCH Grant - Family Planning	\$99,771	\$99,771 <sup>1</sup>	\$0	\$99,771
MDCH Grant - M&CH	\$54,109	\$54,109	(\$35,294)	\$18,815
Fees & Col. - 1st & 2nd party	\$26,000	\$25,065	\$0	\$25,065
Fees & Col. - 3rd party	\$73,000	\$81,775	\$0	\$81,775
Medicaid Settlement	\$17,163	\$0	\$35,294 <sup>2</sup>	\$35,294
Local and Other Funds	\$2,915	\$3,430	\$0	\$3,430
<b>TOTAL REVENUES</b>	<b>\$272,958</b>	<b>\$264,150</b>	<b>\$0</b>	<b>\$264,150</b>
<b>EXPENDITURES:</b>				
Salary and Wages	\$104,987	\$108,750	\$0	\$108,750
Fringe Benefits	\$56,693	\$48,258	\$0	\$48,258
Supplies	\$31,000	\$39,602	\$0	\$39,602
Travel	\$2,600	\$3,202	\$0	\$3,202
Communications	\$1,800	\$1,675	\$0	\$1,675
Space Cost	\$13,400	\$13,986	\$0	\$13,986
Other Expense	\$6,200	\$4,523	\$0	\$4,523
Indirect Cost	\$32,072	\$35,383	\$0	\$35,383
Nursing Admin.	24,206	\$8,771	\$0	\$8,771
<b>TOTAL EXPENDITURES</b>	<b>\$272,958</b>	<b>\$264,150</b>	<b>\$0</b>	<b>\$264,150</b>

<sup>1</sup> Actual MDCH payments provided on a performance reimbursement basis.

<sup>2</sup> Unreported Medicaid Settlement - Finding 4.

**District Health Department #4**  
**Family Planning**  
**Schedule of Costs vs Amounts Billed for Services and Supplies**  
**10/1/08 - 9/30/09**

<u>Medication</u>	<u>Quantity</u>	<u>Price</u>	<u>Total</u>
Female Condoms	12	\$2.00	\$24.00
Condoms Dozen	857	\$4.00	\$3,428.00
Depo Provera	360	\$35.00	\$12,600.00
Diaphragm	1	\$25.00	\$25.00
IUD Copper	2	\$230.00	\$460.00
Nuva Ring	11	\$30.00	\$330.00
Oral Cycles	5250	\$15.00	\$78,750.00
Plan B	98	\$20.00	\$1,960.00
Flagyl (14)	10	\$10.00	\$100.00
Terazol	6	\$20.00	\$120.00
Zithromax	1	\$17.50	\$17.50
Hematology	274	\$5.50	\$1,507.00
Pregnancy Test	194	\$10.00	\$1,940.00
Gonorrhea Test	6	\$8.00	\$48.00
Pap Test	189	\$15.00	\$2,835.00
Vaginal Smear	17	\$10.00	\$170.00
Chlamydia	198	\$15.00	\$2,970.00
Probe Testing	7	\$36.00	\$252.00
Initial Exam	152	\$125.00	\$19,000.00
Annual Exam	493	\$95.00	\$46,835.00
Medical Revisit	770	\$35.00	\$26,950.00
Counseling	42	\$35.00	\$1,470.00
IUD Insert	2	\$90.00	\$180.00
Medical Revisit 10 min	202	\$35.00	\$7,070.00
Medical Revisit 15 min	146	\$35.00	\$5,110.00
Counseling New	2	\$40.00	\$80.00
Counseling Preg	20	\$60.00	\$1,200.00
Total			\$215,431.50
Total Expenses			<u>\$264,150.00</u>
Excess - (Shortfall)			<u><u>(\$48,718.50)</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.

**Comments:** The Health Department recognizes that the internal controls over Family Planning medical supplies and drugs are in need of improvement.

**Corrective Action:** The Health Department is currently developing formal policies and procedures to cover storage, access, issuance, restocking and inventorying of Family Planning medical supplies and drugs.

**Anticipated  
Completion Date:** November 1, 2010

**MDCH Response:** No comment.

## Corrective Action Plan

**Finding Number:** 2

**Page Reference:** 3

**Finding:** Lease Agreements Not Current

Two of the Health Department's building lease agreements are not current.

**Recommendation:** Execute current lease agreements for all facilities.

**Comments:** The Health Department recognizes that the current lease payment of \$6,700 per month for the Cheboygan County office is different than the lease agreement currently on file. No other terms of the lease have been changed and the 20-year lease remains in effect. The lease terms and rental amount for the Presque Isle County facility have not changed since last documented in 2004.

**Corrective Action:** Lessors for the Presque Isle County and Cheboygan County facilities have been contacted. Requests for updated lease agreements or notification/acknowledgement letters indicating validity of the lease agreement terms and current rental amounts have been made. The Health Department intends to have current documentation associated with the leases for the Presque Isle and Cheboygan county facilities on file.

**Anticipated**

**Completion Date:** December 1, 2010

**MDCH Response:** No comment.

## Corrective Action Plan

**Finding Number:** 3

**Page Reference:** 4

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

The billing rates used for Family Planning services and supplies were too low to recover cost.

**Recommendation:** Increase the billing rates to an amount that is sufficient to recover the reasonable cost of services.

**Comments:** The Health Department agrees that the billing rates were too low to recover the cost of services and supplies provided.

**Corrective Action:** The Health Department plans to review billing and expenditure data for its Family Planning program on an annual basis and to implement rate changes as deemed appropriate, in an effort to recover the reasonable cost of providing services.

**Anticipated**

**Completion Date:** Annual reviews will begin with the 2011 Fiscal Year.

**MDCH Response:** No comment.

## Corrective Action Plan

**Finding Number:** 4

**Page Reference:** 5

**Finding:** Unreported Medicaid Settlement

The Health Department did not report Family Planning Medicaid Settlement revenue received.

**Recommendation:** Ensure that all Family Planning Program revenues are reported.

**Comments:** The Health Department agrees that the Family Planning Medicaid Settlement revenue was not reported on the FSR.

**Corrective Action:** The Health Department began correction at the time of the audit visit. Family Planning Medicaid Settlement revenue has been reported on the 2010 FSR and will be included on future FSR's.

**Anticipated  
Completion Date:** Completed.

**MDCH Response:** No comment.