

Audit Report

District Health Department #4
Family Planning and WIC Programs

October 1, 2012 – September 30, 2013



Office of Audit
Quality Assurance and Review
September 2014



RICK SNYDER
GOVERNOR

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

NICK LYON
DIRECTOR

September 23, 2014

John D. Bruning, RS, PhD, MSPH, MBA, Health Officer
District Health Department No. 4
100 Woods Circle, Suite 200
Alpena, MI 49707

Dear Dr. Bruning:

Enclosed is our final report from the Michigan Department of Community Health (MDCH) audit of the WIC, WIC Breastfeeding and Family Planning Programs for the period October 1, 2012 through September 30, 2013.

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; and Corrective Action Plans. 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 Dobynes Dunbar, Manager, Division of Family and Community Health
Jeanette Lightning, Manager, Reproductive Health Unit
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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 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 from Alpena, Cheboygan, Montmorency and Presque Isle Counties. 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, Breast and Cervical Cancer Control Prevention, Immunizations, General Communicable Disease Control, Sexually Transmitted Disease Control, AIDS/HIV Prevention, Women Infant and Children Supplemental Food Program (WIC), WIC Peer Counseling, Bioterrorism Preparedness, Medicaid Outreach, 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, Local and Other Revenue. 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.

The WIC and WIC Breastfeeding Programs were funded by MDCH Grant Funds, Fees and Collections, and Other Local Funds. Grant funding from MDCH for the WIC Programs 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, WIC and WIC Breastfeeding Programs internal controls and financial reporting, and to determine the MDCH shares of cost. 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 financial activity to MDCH in accordance with applicable Department of Community Health 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 Health Department's records and activities for the fiscal period October 1, 2012 to September 30, 2013. Our review procedures included the following:

- Reviewed the most recent Health Department Single Audit report for any Family Planning Program or WIC Program concerns.
- Reviewed the completed internal control questionnaire.
- Reconciled the Family Planning Program and WIC Programs Financial Status Reports to the accounting records.
- Reviewed a sample of payroll expenditures.
- Tested a sample of expenditures for program compliance and adherence to policy and approval procedures.
- Reviewed indirect cost and other cost allocations for reasonableness, and an equitable methodology.
- Reviewed building space costs for proper reporting and compliance with Federal requirements.
- Reviewed Family Planning Medical Supply inventory records.
- Reviewed Family Planning 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 and WIC Programs.

Conclusion: The Health Department was effective in establishing and implementing internal controls over the Family Planning and WIC Programs. We noted one exception related to the Family Planning Program. We noted that billing rates were not sufficient to recover cost as also noted in the FYE 2009 and FYE 2011 audits, and there was no cost analysis used in developing current billing rates (Finding 1).

Finding

1. Billing Rates Not Sufficient to Recover Cost (Repeat) and Lack of Cost Analysis

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. In addition, billing rates were not developed based on a recent cost analysis as required.

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.

For our test to determine if rates could recover the cost of providing services, we multiplied the billing rate for each service and supply times the number of times each service and 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 cost of \$174,531, we found the rates used would not recover \$31,740 of the cost (see Cost vs. Amounts Billed for Supplies and Services Schedule).

The estimated effect is that an amount potentially recoverable from clients was paid from local revenues. Because the amount recovered from all clients was \$8,058, and billing rates were about 18.19% under cost, we can estimate the effect was \$1,791 for the year.

This issue was also cited in the previous two audits (FYE 2009 and FYE 2011). The Health Department's responses were that billing and expenditure data would be reviewed and rate changes would be implemented as deemed appropriate in an effort to recover the reasonable cost of providing services. Rates have remained unchanged since the FYE 2009 audit, and continue to be approximately 18% below cost.

Additionally, billing rates were not developed based on a recent cost analysis as required by the MDCH Title X Family Planning Standards and Guidelines. Section 6.3.1 Charges, Billing, and Collections states the following with respect to the development of a fee schedule:

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 costs, the agency

must have an administration approved policy in place designating the percentage of the cost the fee is to represent.

Recommendation

We recommend the Health Department complete a cost analysis to develop the fee schedule as required by the MDCH Title X Family Planning Standards and Guidelines, and comply with the Title X regulations by increasing its billing rates to an amount that is sufficient to recover the reasonable cost of services based on the cost analysis. If, however, the Health Department chooses to set fees lower than what is required to recover actual costs, the Health Department must adopt a policy designating the percentage of the cost the fee is to represent in accordance with Section 6.3.1 of the MDCH Title X Family Planning Standards and Guidelines.

FINANCIAL REPORTING

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

Conclusion: The Health Department generally reported their Family Planning Program and WIC Program financial activity to MDCH in accordance with applicable Department of Community Health requirements and agreements, applicable federal standards, and generally accepted accounting principles. It was noted that the Federal Cost Based Reimbursement for the Family Planning Program was overstated (Finding 2).

Finding

2. Federal Cost Based Reimbursement Overstated

The Health Department reported a Federal Cost Based Reimbursement amount that did not agree with their accrual or the cash received, but an amount that simply balanced total revenues to total expenditures for the Family Planning Program.

For the Family Planning Program, the Health Department accrued \$76,394 in the accounting records for the Federal Cost Based Reimbursement during FYE 2013. On the final FSR, this amount was reduced to \$27,341, in order to balance total revenues and total expenditures. The actual amount of Federal Cost Based Reimbursement received during FYE 2013, however, was only \$617 according to information provided by the Health Department.

The MDCH Financial Status Report Form Preparation Instructions, I Introduction states:

The Financial Status Report is to be prepared reporting expenditures on a cash or accrued basis and revenue on an accrued basis, with the exception of fees which should be reported on a cash basis as received.

Section IV. Form Preparation, L. 15 states:

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

Due to the method employed by the Health Department, Federal Cost Based Reimbursement revenue was overstated by \$26,724. An adjustment is shown on the attached Family Planning Program Statement of MDCH Grant Program Revenues and Expenditures.

Recommendation

We recommend the Health Department comply with the most recent MDCH Financial Status Report Form Preparation Instructions and report fees and collections on a cash basis.

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, 2013 is \$80,213, under the WIC Program is \$317,788, and under the WIC Breastfeeding Program is \$57,551. The attached Statements of MDCH Grant Program Revenues and Expenditures show the budgeted, reported, and allowable costs. The audit made no adjustments affecting Family Planning Program or WIC Program funding.

**District #4 Health Department
WIC Program
Statement of MDCH Grant Program Revenues and Expenditures
10/1/12 - 9/30/13**

	BUDGETED	REPORTED	AUDIT ADJUSTMENT	ALLOWABLE
REVENUES:				
MDCH Grant	\$317,788	\$317,788 ¹	\$0	\$317,788
Fees & Collections	\$3,200	\$7,053	\$0	\$7,053
Local Funds	\$9,106	\$674	\$0	\$674
TOTAL REVENUES	\$330,094	\$325,515	\$0	\$325,515
EXPENDITURES:				
Salary & Wages	\$156,821	\$140,351	\$0	\$140,351
Fringe Benefits	\$71,557	\$70,283	\$0	\$70,283
Supplies	\$14,238	\$11,420	\$0	\$11,420
Travel	\$6,200	\$2,343	\$0	\$2,343
Communications	\$2,636	\$2,178	\$0	\$2,178
Space Cost	\$22,000	\$24,152	\$0	\$24,152
Other Expense	\$12,575	\$2,782	\$0	\$2,782
Admin Overhead	\$33,678	\$55,417	\$0	\$55,417
Other Cost Distributions	\$10,389	\$16,589	\$0	\$15,589
TOTAL EXPENDITURES	\$330,094	\$325,515	\$0	\$325,515

¹ Actual MDCH payments provided on a performance reimbursement basis.

**District #4 Health Department
Family Planning Program
Statement of MDCH Grant Program Revenues and Expenditures
10/1/12 - 9/30/13**

	BUDGETED	REPORTED	AUDIT ADJUSTMENT	ALLOWABLE
REVENUES:				
MDCH Grant	\$72,797	\$72,797 ¹	\$0	\$72,797
MCH Funding	\$7,416	\$7,416	\$0	\$7,416
Fees 1 st & 2 nd Party	\$10,000	\$8,058	\$0	\$8,058
Fees & Collections – 3 rd Party	\$58,000	\$58,919	\$0	\$58,919
Fed Cost Based Reimbursement	\$34,741	\$27,341	(\$26,724) ²	\$617
Local Funds	\$8,938	\$0	\$26,724	\$26,724
TOTAL REVENUES	\$191,892	\$174,531	\$0	\$174,531
EXPENDITURES:				
Salary & Wages	\$79,908	\$66,043	\$0	\$66,043
Fringe Benefits	\$36,462	\$38,075	\$0	\$38,075
Supplies	\$24,500	\$21,029	\$0	\$21,029
Travel	\$1,822	\$2,096	\$0	\$2,096
Communications	\$1,200	\$996	\$0	\$996
Space Cost	\$10,000	\$8,534	\$0	\$8,534
Other Expense	\$2,500	\$2,593	\$0	\$2,593
Admin Overhead	\$28,000	\$27,393	\$0	\$27,393
Other Cost Distributions	\$7,500	\$7,772	\$0	\$7,772
TOTAL EXPENDITURES	\$191,892	\$174,531	\$0	\$174,531

¹ Actual MDCH payments provided on a performance reimbursement basis.

² Federal Cost Based Reimbursement overstated (Finding 2).

**District #4 Health Department
WIC Breastfeeding Program
Statement of MDCH Grant Program Revenues and Expenditures
10/1/12 - 9/30/13**

	BUDGETED	REPORTED	AUDIT ADJUSTMENT	ALLOWABLE
REVENUES:				
MDCH Grant	\$57,551	\$57,551 ¹	\$0	\$57,551
Local Funds	\$13,409	\$18,575	\$0	\$18,575
TOTAL REVENUES	\$70,960	\$76,126	\$0	\$76,126
EXPENDITURES:				
Salary & Wages	\$31,614	\$37,137	\$0	\$37,137
Fringe Benefits	\$14,425	\$8,389	\$0	\$8,389
Supplies	\$467	\$386	\$0	\$386
Travel	\$350	\$287	\$0	\$287
Communications	\$740	\$1,408	\$0	\$1,408
Space Cost	\$5,736	\$6,073	\$0	\$6,073
Other Expense	\$24	\$91	\$0	\$91
Admin Overhead	\$8,088	\$11,978	\$0	\$11,978
Other Cost Distributions	\$9,516	\$10,377	\$0	\$10,377
TOTAL EXPENDITURES	\$70,960	\$76,126	\$0	\$76,126

¹ Actual MDCH payments provided on a performance reimbursement basis

**District #4 Health Department
Family Planning
Cost vs. Amounts Billed for Supplies and Services Schedule
10/1/12 – 9/30/13**

<u>Code</u>	<u>Description</u>	<u>Quantity</u>	<u>Fee</u>	<u>Total</u>
Office Visits				
3000	Established Exam	306	\$95.00	\$29,070.00
3001	Initial Exam	83	\$125.00	\$10,375.00
3002	Medical Revisit (5)	259	\$35.00	\$9,065.00
3003	Counseling Est	23	\$35.00	\$805.00
3007	IUD Insertion	2	\$90.00	\$180.00
3008	Medical Revisit (10)	6	\$35.00	\$210.00
3009	Medical Revisit (15)	377	\$35.00	\$13,195.00
3011	Counseling New Pregnancy	33	\$60.00	\$1,980.00
Laboratory				
3100	Hematology	41	\$5.50	\$225.50
3101	Urinalysis	0	\$5.00	\$0.00
3102	Pregnancy Test	141	\$10.00	\$1,410.00
3103	Gonorrhea	2	\$8.00	\$16.00
3104	Pap Test	85	\$20.00	\$1,700.00
3105	Vaginal Smear	11	\$10.00	\$110.00
3108	Chlamydia	220	\$40.00	\$8,800.00
Contraceptives				
3200	Oral Contraceptives	3494	\$15.00	\$52,410.00
3201	Condoms (Dz)	551	\$4.00	\$2,204.00
3207	Depo-Provera	269	\$35.00	\$9,415.00
3210	Plan B	46	\$20.00	\$920.00
3214	Nuva Ring	8	\$30.00	\$240.00
3204	IUD Paragard	2	\$230.00	\$460.00
				<u>\$142,790.50</u>
	Total Expenses			<u>\$174,531.00</u>
	(Shortfall)/Excess			<u>(\$31,740.50)</u>

Corrective Action Plan

Finding Number: 1

Page Reference: 3

Finding: **Billing Rates Not Sufficient to Recover Cost (Repeat) and Lack of Cost Analysis**

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. In addition, billing rates were not developed based on a recent cost analysis as required.

Recommendation: Complete a cost analysis to develop the fee schedule as required by the MDCH Title X Family Planning Standards and Guidelines, and comply with the Title X regulations by increasing its billing rates to an amount that is sufficient to recover the reasonable cost of services based on the cost analysis. If, however, the Health Department chooses to set fees lower than what is required to recover actual costs, the Health Department must adopt a policy designating the percentage of the cost the fee is to represent in accordance with Section 6.3.1 of the MDCH Title X Family Planning Standards and Guidelines.

Comments: The Health Department acknowledges that the calculations performed as part of the Family Planning Program audit indicated that the department's billing rates were too low to recover the cost of services and supplies provided and that a cost analysis for establishing rates was not available.

Corrective Action: The Health Department will provide a cost analysis to review billing and expenditure data for its Family Planning Program and implement rate changes as deemed appropriate in an effort to recover the reasonable cost of providing services. A concern with raising rates too high is that it may dissuade individuals from seeking services altogether. If the study raises

concerns about the rates being too high, we will seek adoption of a policy specifying the percentage of the cost the fees will represent.

Anticipated Completion Date: Cost analysis will be performed after the end of Fiscal Year 2014 so recent information is utilized.

MDCH Response: None

Corrective Action Plan

Finding Number: 2

Page Reference: 4

Finding: **Federal Cost Based Reimbursement Overstated**

The Health Department reported a Federal Cost Based Reimbursement amount that did not agree with their accrual or the cash received, but an amount that simply balanced total revenues to total expenditures for the Family Planning Program.

Recommendation: Comply with the most recent MDCH Financial Status Report Form Preparation Instructions and report all fees and collections on a cash basis.

Comments: The Health Department acknowledges the Federal Cost Based Reimbursement concerns.

Corrective Action: The Health Department will report Federal Cost Based Reimbursement on a cash basis. This will reflect the actual amount received in the fiscal year.

Anticipated

Completion Date: Federal Cost Based Reimbursement will be correctly reported on the FY14 Final FSR.

MDCH Response: None

Comments and Recommendations

WIC Year-End Office Supply Allocation

At the end of FY 2013, the Health Department allocated \$5,000 of office supplies from their supply inventory to the WIC Program with no supporting documentation. Part II, Section III. A. of the Agreement between MDCH and the Health Department requires compliance with OMB Circular A-87. Per OMB Circular A-87 (located at 2 CFR Part 225), Appendix A, Section C.1., “To be allowable under Federal awards, costs must...j. Be adequately documented.”

Recommendation

We recommend that the Health Department maintain a log in the supply room which would include the description of the item taken, the quantity, the program to be charged, the initials of the person taking the item, and the assigned cost. The assigned cost should agree with invoices. Amounts allocated to programs should be supported by the log.

Corrective Action

The Health Department plans to more diligently monitor and allocate supplies to programs to address this concern.