

# Audit Report

Genesee County Health Department  
Family Planning and WIC Programs

October 1, 2012 – September 30, 2013



Office of Audit  
Quality Assurance and Review  
December 2014



RICK SNYDER  
GOVERNOR

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

NICK LYON  
DIRECTOR

December 10, 2014

Mark Valacak, MPH  
Genesee County Health Department  
McCree Courts and Human Services Building  
630 S. Saginaw Street, Suite 4  
Flint, Michigan 48502-1540

Dear Mr. Valacak:

Enclosed is our final report from the Michigan Department of Community Health (MDCH) audit of the Genesee County Health Department WIC 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; Cost vs. Amounts Billed for Supplies and Services; and Corrective Action Plans. The conclusions and findings are organized by audit objective. The Corrective Action Plans include the agency's response to the Preliminary Analysis.

As noted in the Audit Report, Finding #2 affected MDCH grant funding for the Family Planning Program, and funds are due back to MDCH. We provided multiple opportunities over the last several months for the Health Department to provide further information to support a revision to Finding #2. To date, the only thing provided is an interpretation of the performance based reimbursement method that incorrectly concludes the Health Department is entitled to the full state allocation if levels of service were met, regardless of program income received. However, the contract clearly states that reimbursement of costs is net of program income. Additionally, Federal regulation requires that program income be deducted from total allowable costs to determine the net allowable costs. Nothing provided to date shows the income recorded in Accounts 23165, 23405, 23415, 23423, 23435, 24985, and 28680 is anything other than program income. Accordingly, this program income must be netted against total allowable costs to determine the MDCH grant reimbursement amount.

Please remit a check payable to the State of Michigan for \$181,189 to the following address by January 12, 2015:

Lisa Halverson, Manager  
Revenue Operations Section, Accounting Division  
Michigan Department of Community Health  
P.O. Box 30437  
Lansing, MI 48909

Mark Valacak, MPH  
Genesee County Health Department  
Page 2  
December 10, 2014

Thank you for the cooperation extended throughout this audit process.

Sincerely,



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

Enclosure

cc: Stan Bien, Director, WIC Division  
Paulette Dobyne Dunbar, Director, Division of Family and Community Health  
Jeanette Lightning, Manager, Reproductive Health Unit  
Pam Myers, Director, Office of Audit  
Lisa Halverson, Manager, Revenue Operations Section, Accounting Division  
Steve Utter, Financial Analyst, Division of Family and Community Health

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## **DESCRIPTION OF AGENCY**

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

## **FUNDING METHODOLOGY**

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

The Family Planning Program was funded by MDCH grant funds, first and third party fees and collections, local funds, and other revenue. Grant funding from MDCH for the Family Planning Program is federal funding under federal catalog 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 cost (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 Program was funded by MDCH grant funds, local and other revenue. Grant funding from MDCH for the WIC Program is federal funding under federal catalog number 10.557, and is first source funding subject to performance requirements.

## **PURPOSE AND OBJECTIVES**

The purpose of this audit was to assess the Family Planning Program and WIC Program internal controls and financial reporting, and to determine the MDCH shares of Family Planning Program and WIC Program costs.

The following were the specific objectives of the audit:

1. To assess the Health Department's effectiveness in establishing and implementing internal controls over the Family Planning Program and WIC Program.
2. To assess the Health Department's effectiveness in reporting their Family Planning Program and WIC 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 shares of cost for the Family Planning Program and WIC Program in accordance with applicable MDCH requirements and agreements, and any balance due to or due from the Health Department.

## SCOPE AND METHODOLOGY

We examined the Family Planning Program and WIC Program records and activities for the fiscal period October 1, 2012 to September 30, 2013. Our review procedures included the following:

- Reviewed the most recent Genesee County 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 Program Financial Status Reports (FSRs) 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 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 and WIC Program.

**Conclusion:** The Health Department was generally effective in establishing and implementing internal controls over the Family Planning Program and WIC Program. However, we noted one exception related to the Family Planning Program. We noted that billing rates were not sufficient to recover cost and the lack of a cost analysis to establish the fee schedule (Finding #1).

## **Finding**

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

The Health Department's billing rates for Family Planning Program services and supplies were generally too low to recover cost. Therefore, clients from households with an annual income that exceeded 250 percent of the poverty guideline were not charged for the reasonable cost of providing services as required by Title X regulations. In addition, there was no cost analysis available to support the current fee schedule.

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....*

The MDCH Title X Family Planning Standards and Guidelines, Section 6.3.1 Charges, Billing and Collections state 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 cost of providing services. To be recent, a cost analysis should be conducted within three years, or within one year following major changes in the program.*

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 \$659,139 we found the rates used would not recover \$282,106 of the cost (see Cost vs. Amounts Billed for Supplies and Services Schedule). The effect is that an amount potentially recoverable from clients was paid from other revenue. Because the amount recovered from all clients was \$7,769 and the billing rates were 42.80 percent below cost, we can estimate the effect was approximately \$5,813.

This was also cited in the FY 2011 Audit Report, but the Health Department was unwilling to increase billing rates. Billing rates remained primarily unchanged over the two year period. Additionally, the number of services and supplies decreased significantly resulting in lower potential revenue. While total expenses decreased, the decrease was not as much as the decrease in total potential revenue. Billing rates are not sufficient to recover the reasonable cost of providing services. Additionally, there was no evidence of a cost analysis in developing the fee schedule as required.

## **Recommendation**

We recommend that the Health Department take action to ensure fees are designed to recover the reasonable cost of providing services to comply with the Title X regulations. If, however, the Health Department chooses to set fees lower than what is required to recover actual cost, the Health Department must adopt a policy designating the percentage of 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 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.

**Conclusion:** The Health Department did not report their Family Planning Program and WIC 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 revenue reporting (Finding #2), indirect cost reporting (Finding #3) and internal service fund reserve balances (Finding #4).

### **Finding**

#### **2. Revenue Not Reported and Misclassified on Financial Status Report (Repeat)**

The Health Department significantly understated 3<sup>rd</sup> Party Fees and Collections revenue and overstated 1<sup>st</sup> and 2<sup>nd</sup> Party Fees and Collections for the Family Planning Program.

The Health Department reported 1<sup>st</sup> and 2<sup>nd</sup> Party Fees and Collections of \$40,000 when they were only \$7,769, and 3<sup>rd</sup> Party Fees and Collections of \$9,200 when they were actually \$231,926. Erroneous fees and collections reporting was also cited in the previous two MDCH Audit Reports.

According to the MDCH grant agreement, Part II General Provisions, Section IV. Payment and Reporting Procedures, revenue must be reported, and on the appropriate lines on the standard FSR; and reimbursement with State funds is on the Performance Reimbursement Method, which is net of fees and collections as follows:

- D. *Financial Status Report Submission - A Financial Status Report (FSR) must be submitted for all programs...All FSRs must be prepared in accordance with the Department's FSR instructions...*
- E.1. *Performance Reimbursement – A reimbursement method by which local health departments are reimbursed based upon the understanding that a certain level of performance (measured by outputs) 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 State funds.*

The Financial Status Report, Form Preparation Instructions, 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.*

The Department of Health and Human Services defines “program income” as follows in their Grants Policy Statement in Section II-60 (also included in 45 CFR 92.25):

*Program income is gross income—earned by a recipient, subrecipient, or a contractor under a grant—directly generated by the grant-supported activity or earned as a result of the award. Program income includes, but is not limited to, income from fees for services performed...*

The Code of Federal Regulations, 45 CFR, Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments, states the following with respect to program income at Part 92.25:

*Program income shall be deducted from outlays which may be both Federal and non-Federal... Ordinarily program income shall be deducted from total allowable costs to determine the net allowable costs. Program income shall be used for current costs unless the Federal agency authorizes otherwise. Program income which the grantee did not anticipate at the time of the award shall be used to reduce the Federal agency and grantee contributions rather than to increase the funds committed to the project.*

Adjustments are shown on the attached Statement of MDCH Grant Program Revenues and Expenditures. After adjusting to the correct revenue amounts and considering other adjustments, the MDCH grant was overcharged \$181,189, and this amount is due back to MDCH.

### **Recommendation**

We again recommend that the Health Department implement policies and procedures to ensure all revenue items are reported and properly classified on FSRs submitted to MDCH.

### **Finding**

#### **3. Understated Indirect Costs**

The Health Department understated their indirect costs for the Family Planning Program.

The MDCH Agreement, Part II, Section IV. D. requires that the FSR report total actual program expenditures regardless of the source of funds.

The Health Department’s contract with MDCH requires compliance with OMB Circular A-87 (located at 2 CFR Part 225).

OMB Circular A-87, Appendix A, Section C.1. states that 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...*
- j. Be adequately documented.*

Per OMB Circular A-87 (located at 2 CFR Part 225), Appendix A - General Principles for Determining Allowable Costs, Section C. 3.:

*Allocable Costs...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.*

Per OMB Circular A-87 (located at 2 CFR Part 225), Appendix A - General Principles for Determining Allowable Costs, Section D.:

*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.*

The Health Department allocates costs related to Billing, Laboratory, and Nursing Supervision to the Family Planning Program. Billing and Nursing Supervision costs were allocated using salaries and fringes while the Laboratory costs were allocated using time studies. Expenses on the worksheet used to calculate the allocation for these cost centers did not match the expenses reported on the trial balance for Billing, Laboratory, and Nursing Supervision. Additionally, for the Laboratory allocation, the Health Department used a rate of 15.90 percent to allocate costs to the Family Planning Program, but provided no support to justify the rate. We recalculated the allocation of these cost centers and found that expenses were underreported by \$9,351.

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

### **Recommendation**

We recommend that the Health Department adopt policies and procedure to ensure that all indirect allocations are documented and recorded properly.

### **Finding**

#### **4. Internal Service Fund Working Capital Reserves Exceed Allowable Amounts**

Genesee County Internal Service Funds had working capital reserves that exceeded the allowable amounts established by OMB Circular A-87 as of September 30, 2012.

Genesee County charges most departments (including the Health Department) for numerous expenses using internal service funds. The funds are used to finance the cost of providing numerous services for their departments. Based on the September 30, 2012 financial statements, the County had accumulated excess balances for three of their internal service funds.

OMB Circular A-87 (located at 2 CFR Part 225), Appendix C, Sections G. 3. and G. 4. require comparisons of the charges to the actual allowable costs, and adjustments by one of several methods. Additionally, OMB Circular A-87, Appendix C, Section G. 2., allows for the establishment and maintenance of a reasonable level of working capital reserve for internal service funds. According to OMB Circular A-87, a working capital reserve as part of retained earnings of up to 60 days cash expenses for normal operating purposes is considered reasonable.

According to Maximus's analysis of the Genesee County Internal Service Funds for the Year Ended September 30, 2012, cash expenses were \$295,775 for the Copier fund, \$468,545 for the Corp Counsel fund, and \$497,106 for the Unemployment Benefits fund. The 60 day cash expenditure limit is \$49,296 for the Copier fund, \$78,091 for the Corp Counsel fund, and \$82,851 for the Unemployment Benefits fund. The net position after allowed adjustments as of September 30, 2012 is \$227,434 for the Copier fund, \$198,148 for the Corp Counsel fund, and \$850,720 for the Unemployment Benefits fund. Accordingly, the working capital reserves exceeded the allowable amounts by \$178,138 for the Copier fund, \$120,057 for the Corp Counsel fund, and \$767,869 for the Unemployment Benefits fund. Reductions are needed to achieve compliance with OMB Circular A-87.

### **Recommendation**

We recommend that Genesee County devise a plan to ensure the Internal Service Funds working capital reserves are reduced to the allowable limit (60 days cash expenses) by FYE 2016 by either cash refunds or adjustments to future billing rates/allocations.

## **MDCH SHARES OF COST**

**Objective 3:** To determine the MDCH shares of cost for the Family Planning Program, WIC Program and WIC Breastfeeding Program in accordance with applicable MDCH requirements and agreements, and any balance due to or due from the Health Department.

**Conclusion:** The MDCH obligations under the WIC, WIC Breastfeeding, and Family Planning Programs for fiscal year ended September 30, 2013 are \$1,687,599; \$57,912; and \$419,444 (including MCH funding); respectively. The attached Statements of MDCH Grant Program Revenues and Expenditures show the budgeted, reported, and allowable costs. Due to the adjustments for unreported revenue (Finding #2) and under reported indirect costs (Finding #3), \$181,189 is due back to MDCH for the Family Planning Program.

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

	<b>BUDGETED</b>	<b>REPORTED</b>	<b>AUDIT ADJUSTMENT</b>	<b>ALLOWABLE</b>
<b>REVENUES:</b>				
MDCH Grant	\$1,805,497	\$1,687,599 <sup>1</sup>	\$0	\$1,687,599
Fees & Collections – 3 <sup>rd</sup> Party	\$0	\$0	\$0	\$0
Local and Other Funds	\$0	\$0	\$0	\$0
<b>TOTAL REVENUES</b>	<b>\$1,805,497</b>	<b>\$1,687,599</b>	<b>\$0</b>	<b>\$1,687,599</b>
<b>EXPENDITURES:</b>				
Salary and Wages	\$729,617	\$748,510	\$0	\$748,510
Fringe Benefits	\$588,290	\$480,249	\$0	\$480,249
Cap. Exp. For Equip	\$0	\$759	\$0	\$759
Contractual	\$52,376	\$27,670	\$0	\$27,670
Supplies	\$15,200	\$40,737	\$0	\$40,737
Travel	\$4,503	\$3,210	\$0	\$3,210
Communications	\$0	\$0	\$0	\$0
Other Expense	\$58,765	\$7,235	\$0	\$7,235
Admin Overhead	\$354,636	\$379,229	\$0	\$379,229
Personal Health Services	\$2,110	\$0	\$0	\$0
<b>TOTAL EXPENDITURES</b>	<b>\$1,805,497</b>	<b>\$1,687,599</b>	<b>\$0</b>	<b>\$1,687,599</b>

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

**Genesee County Health Department  
WIC Breastfeeding/Peer Counseling Program  
Statement of MDCH Grant Program Revenues and Expenditures  
10/1/12 - 9/30/13**

	<b>BUDGETED</b>	<b>REPORTED</b>	<b>AUDIT ADJUSTMENT</b>	<b>ALLOWABLE</b>
<b>REVENUES:</b>				
MDCH Grant	\$63,442	\$57,912 <sup>1</sup>	\$0	\$57,912
Local and Other Funds	\$0	\$0	\$0	\$0
<b>TOTAL REVENUES</b>	\$63,442	\$57,912	\$0	\$57,912
<b>EXPENDITURES:</b>				
Salary and Wages	\$0	\$0	\$0	\$0
Fringe Benefits	\$0	\$0	\$0	\$0
Supplies	\$0	\$0	\$0	\$0
Travel	\$0	\$0	\$0	\$0
Communications	\$0	\$0	\$0	\$0
Other Expense	\$55,180	\$45,736	\$0	\$45,736
Admin Overhead	\$9,440	\$12,176	\$0	\$12,176
Personal Health Services	(\$1,178)	\$0	\$0	\$0
<b>TOTAL EXPENDITURES</b>	\$63,442	\$57,912	\$0	\$57,912

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

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

	<b>BUDGETED</b>	<b>REPORTED</b>	<b>AUDIT ADJUSTMENT</b>	<b>ALLOWABLE</b>
<b>REVENUES:</b>				
MDCH Grant	\$288,336	\$288,336 <sup>1</sup>	(\$181,189) <sup>2,3,4</sup>	\$107,147
Fees 1 <sup>st</sup> & 2 <sup>nd</sup> Party	\$254,000	\$40,000	(\$32,231) <sup>2</sup>	\$7,769
Fees & Collections - 3 <sup>rd</sup> Party	\$69,961	\$9,200	\$222,726 <sup>2</sup>	\$231,926
Federal & State (Non MDCH)	\$0	\$0	\$0	\$0
MCH Funding	\$312,297	\$312,297	\$0	\$312,297
Local Funds Other	\$0	\$0	\$0	\$0
<b>TOTAL REVENUES</b>	<b>\$924,594</b>	<b>\$649,833</b>	<b>\$9,306</b>	<b>\$659,139</b>
<b>EXPENDITURES:</b>				
Salary & Wages	\$300,683	\$212,486	(\$10) <sup>4</sup>	\$212,476
Fringe Benefits	\$294,645	\$163,079	\$0	\$163,079
Supplies	\$60,000	\$31,072	\$0	\$31,072
Travel	\$1,500	\$174	\$0	\$174
Contractual	\$0	\$0	\$0	\$0
Other Expense	\$23,764	\$52,196	(\$35) <sup>4</sup>	\$52,161
Admin Overhead	\$160,196	\$115,910	\$0	\$115,910
Other Distribution	\$83,806	\$74,916	\$9,351 <sup>3</sup>	\$84,267
<b>TOTAL EXPENDITURES</b>	<b>\$924,594</b>	<b>\$649,833</b>	<b>\$9,306</b>	<b>\$659,139</b>

- <sup>1</sup> Actual MDCH payments provided on a performance reimbursement basis.  
<sup>2</sup> Revenue misreporting (Finding #2).  
<sup>3</sup> Understated Indirect Cost (Finding #3)  
<sup>4</sup> Adjustments to agree FSR to general ledger (minor differences, so no finding).

**Genesee County 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>
<b>Office Visits</b>				
99384	Initial Exam 12-17	39	\$168.00	\$6,552.00
99385	Initial Exam 18-39	290	\$165.00	\$47,850.00
99386	Initial Exam 40-64	5	\$192.00	\$960.00
99201	New Office Visit I	10	\$49.00	\$490.00
99202	New Office Visit II	1	\$84.00	\$84.00
99203	New Office Visit III	1	\$116.00	\$116.00
99394	Establish Exam 12-17	30	\$144.00	\$4,320.00
99395	Establish Exam 18-39	600	\$144.00	\$86,400.00
99396	Establish Exam 40-64	53	\$157.00	\$8,321.00
99051	Counseling	0	\$50.00	\$0.00
99211	Est Office Visit I	1,832	\$24.00	\$43,968.00
99212	Est Office Visit II	249	\$49.00	\$12,201.00
99213	Est Office Visit III	60	\$78.00	\$4,680.00
11980	Implanon Insertion	22	\$150.00	\$3,300.00
11976	Removal Implanon	20	\$210.00	\$4,200.00
11983	Removal/Reinsert Implanon	0	\$318.00	\$0.00
58300	Insert IUD	25	\$88.00	\$2,200.00
58301	Remove IUD	20	\$140.00	\$2,800.00
56501	TCA Female	0	\$157.00	\$0.00
<b>Laboratory</b>				
81002	Urinalysis Dip	22	\$10.00	\$220.00
81025	Pregnancy Test	1,185	\$10.00	\$11,850.00
85018	Hemocue	7	\$5.00	\$35.00
87210	Wet Prep	582	\$8.00	\$4,656.00
87081	Gonorrhea	399	\$15.00	\$5,985.00
87270	Chlamydia	408	\$15.00	\$6,120.00
87491	Chlamydia & Gonorrhea Amplified	748	\$50.00	\$37,400.00
88164	Pap Smear	27	\$15.00	\$405.00
<b>Contraceptives</b>				
S4993	Oral Contraceptives	537	\$20.00	\$10,740.00
J1055	Depo-Provera	1,076	\$32.00	\$34,432.00
J7303	Nuva Ring	59	\$35.00	\$2,065.00
J7304	Ortho Evra (Patch)	26	\$21.00	\$546.00
A4267	Condom (per dz)	1,482	\$6.00	\$8,892.00
A4269	Foam/Gel	22	\$10.00	\$220.00
Z8506	Plan B	0	\$10.00	\$0.00
J7300	IUD Paragard	15	\$275.00	\$4,125.00
J7302	IUD Mirena	11	\$400.00	\$4,400.00
J7307	IUD Impanon	22	\$750.00	\$16,500.00
				\$377,033.00
	Total Expenses			\$659,139.00
	(Shortfall)/Excess			(\$282,106.00)

## 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's billing rates for family planning services and supplies were generally too low to recover cost. Therefore, clients from households with an annual income that exceeded 250 percent of the poverty guideline were not charged for the reasonable cost of providing services as required by Title X regulations. In addition, there was no cost analysis supporting the current fee schedule.

**Recommendation:** Take action to ensure fees are designed to recover the reasonable cost of providing services to comply with the Title X regulations. If, however, the Health Department chooses to set fees lower than what is required to recover actual costs, adopt a policy designating the percentage of the cost the fee is to represent in accordance with Section 6.3.1 of the MDCH Title X Family Planning Standards and Guidelines.

### Health Department

**Comments:** Agree

**Corrective Action:** Since the audit fieldwork, the Health Department has completed two cost studies and is using the gathered information to set a more appropriate fee schedule.

**Anticipated Completion Date:** In Process

**MDCH Response:** None

## Corrective Action Plan

**Finding Number:** 2

**Page Reference:** 4

**Finding:** Revenue Not Reported and Misclassified on Financial Status Report (Repeat)

The Health Department significantly understated 3<sup>rd</sup> Party Fees and Collections revenue and overstated 1<sup>st</sup> and 2<sup>nd</sup> Party Fees and Collections for the Family Planning Program.

**Recommendation:** Implement policies and procedures to ensure all revenue items are reported and properly classified on the FSRs submitted to MDCH.

### Health Department

**Comments:** All revenues were reported in accordance with the Comprehensive Agreement, Attachment IV [Funding/Reimbursement Matrix] revenue requirements; this is a performance based grant. All levels of service were met. Family Planning Program Reimbursement Method: Performance 5, 8 and 13:

5. Subject to statewide maintenance of effort requirement for Title X.
8. The performance reimbursement target will be the base target caseload established by MDCH.
13. Each delegate agency must serve a minimum percentage of Title X users to access their total allocated funds. Quarterly FPAR data will be used to determine total Title X users and Plan First! Enrollees.

We strongly disagree with the assessment that collected revenues should be "...net of program income..." This is a requirement of footnote 6, "State funding is first source (after fees and other earmarked sources)." This is not applicable to the Family Planning Program instruction for the year that was audited.

Attachment I of the Comprehensive Agreement, Section VIII. Special Budget Instructions, C.1. Family Planning Special Budget Requirements requires us to report all funding sources, and does not state that local funding or fees are to be used first.

We continue to assert that fees were reported in the order of funding. No fees collected for the Family Planning Program have been used for any other Health Department operational expenses.

**Corrective Action:** Continue to follow the Michigan Department of Community Health Budget Instructions.

**Anticipated Completion Date:** Ongoing

**MDCH Response:** We agree that the Family Planning Program reimbursement method is “Performance Reimbursement.” “Performance Reimbursement” is defined in the MDCH Agreement at Part II General Provisions, Section IV. Payment and Reporting Procedures, E. Reimbursement Method; and in Attachment I of the Comprehensive Agreement, Section III. Reimbursement Chart, B. Reimbursement Methods as:

*A reimbursement method by which local health departments are reimbursed based upon the understanding that a certain level of performance (measured by outputs) 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 State funds.*

The absence of a footnote on the Attachment IV [Funding/Reimbursement Matrix] detailing that reimbursement is net of program income does not modify the contractually agreed upon reimbursement method of Performance Reimbursement, which is clearly defined in the contract as being net of program income.

Furthermore, Federal regulation (45 CFR Part 92.25) requires that program income be deducted from total allowable costs to determine the net allowable costs, and program income be used for current costs unless the Federal agency authorizes otherwise.

Nothing was provided by the Health Department to show the income recorded in Accounts 23165, 23405, 23415, 23423, 23435, 24985, and 28680 is anything other than “program income.”

For FYE 2014 forward, the Health Department must ensure the entire amount of program income is reported on the FSR, and the MDCH grant reimbursement of costs is net of program income in accordance with the Performance Reimbursement Method detailed in the contract.

## Corrective Action Plan

**Finding Number:** 3

**Page Reference:** 5

**Finding:** Understated Indirect Costs

The Health Department understated their indirect costs for the Family Planning Program.

**Recommendation:** Adopt policies and procedure to ensure that all indirect allocations are documented and recorded properly.

### Health Department

**Comments:** Costs for the Laboratory were distributed net of revenues generated by the Laboratory staff. An MDCH form (DCH 0410 7/98) was given as support for the distribution model.

**Corrective Action:** Complete a written narrative to accompany financial documents.

### Anticipated

**Completion Date:** Not provided

**MDCH Response:** The distribution methodology is not in question. The issue is that the expenses on the worksheet used to calculate the allocation for these cost centers did not match the expenses reported on the trial balance for Billing, Laboratory, and Nursing Supervision. Applicable revenue was taken into consideration; it was the expenses used in the calculation that did not agree with the trial balance. Additionally, for the Laboratory allocation, the Health Department used a rate of 15.90 percent to allocate costs to the Family Planning Program, but provided no support to justify the rate. In addition to a narrative explanation regarding the distribution, we advise the Health Department that action should be taken to ensure cost pool numbers and distribution percentages are adequately supported.

## Corrective Action Plan

**Finding Number:** 4

**Page Reference:** 6

**Finding:** Internal Service Fund Working Capital Reserves Exceed Allowable Amounts

Genesee County Internal Service Funds had working capital reserves that exceeded the allowable amounts established by OMB Circular A-87 as of September 30, 2012.

**Recommendation:** Devise a plan to ensure the Internal Service Funds working capital reserves are reduced to the allowable limit (60 days cash expenses) by FYE 2016 by either cash refunds or adjustments to future billing rates/allocations.

### Health Department

**Comments:** None

**Corrective Action:** The County will implement a plan to ensure that Internal Service Funds working capital reserves are reduced to the allowable limits by FYE 2016.

**Anticipated Completion Date:** FYE 2016

**MDCH Response:** None