

Audit Report

Ingham County Health Department Family Planning

October 1, 2010 – September 30, 2011



Office of Audit
Quality Assurance and Review
November 2012



RICK SNYDER
GOVERNOR

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

JAMES K. HAVEMAN
DIRECTOR

November 2, 2012

Renee Canady, Health Officer
Ingham County Health Department
5303 S. Cedar St.
Lansing, Michigan 48909

Dear Ms. Canady:

Enclosed is our final report from the Michigan Department of Community Health (MDCH) audit of the Ingham County Health Department Family Planning Program for the period October 1, 2010 through September 30, 2011.

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; Corrective Action Plans; and Comments and Recommendations. 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. The Comments and Recommendations section includes areas where we believe there are opportunities for the agency to further strengthen internal controls or to increase operating efficiencies.

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

TABLE OF CONTENTS

	Page
Description of Agency	1
Funding Methodology.....	1
Purpose and Objectives.....	1
Scope and Methodology	2
<u>Conclusions, Findings, and Recommendations</u>	
<u>Internal Controls</u>	2
1. Billing Rates Not Sufficient to Recover Cost (Repeat Finding).....	3
<u>Financial Reporting</u>	4
2. Unacceptable Method of Allocating Salaries & Wages	4
<u>MDCH Share of Costs and Balance Due</u>	5
Statement of MDCH Grant Program Revenues and Expenditures - Family Planning	6
Cost vs. Amounts Billed for Supplies and Services Schedule.....	7
Corrective Action Plans	8
Comments and Recommendations.....	11

DESCRIPTION OF AGENCY

The Ingham 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 Ingham County, which is the reporting entity, and the administrative office is located in Lansing, Michigan. The Health Department operates under the legal supervision and control of the Board of Health, which is comprised of commissioners of Ingham County. The Health Department provides community health program services to the residents of Ingham County. These service programs include: Food Service Sanitation, On-Site Sewage, Drinking Water, Vision Screening, Hearing Screening, BCCCP, Immunizations, General Communicable Disease Control, Childhood Lead Poisoning Prevention, Sexually Transmitted Disease Control, AIDS/HIV Prevention, Women Infant and Children Supplemental Food Program, Bioterrorism/Emergency Preparedness, Tobacco Reduction, 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 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 Department of Community Health 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, 2010 to September 30, 2011. Our review procedures included the following:

- Reviewed the most recent Single Audit report for any Family Planning Program concerns.
- Completed an internal control questionnaire.
- Reconciled the Family Planning Program Financial Status Report (FSR) 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 Program.

Conclusion: The Health Department was effective in establishing and implementing internal controls over the Family Planning Program. However, we noted that billing rates were not sufficient to recover cost (Finding 1) as also noted in the FYE 2008 MDCH audit.

Finding

1. Billing Rates Not Sufficient to Recover Cost (Repeat Finding)

The Health Department's billing rates for family planning services and supplies were generally too low to recover cost. Therefore, clients from households with an annual income that exceeded 250% of the poverty guideline were not charged for the reasonable cost of providing services as required by Title X regulations. This was also cited in the FYE 2008 MDCH audit.

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 costs of \$1,067,506, we found the rates used would not recover \$334,666 of the cost (see Cost vs. Amounts Billed for Supplies and Services Schedule). We estimate that rates would need to be increased approximately 45% to cover costs.

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 cannot recover the total cost of services and supplies, amounts charged to persons from families whose annual income exceeds 250% of the Poverty Guidelines will not recover the reasonable cost of providing services.

The total financial impact is not significant due to the low level of 1st Party Collections. However, charges for services must be sufficient to recover the cost of providing the services according to Federal regulations. In response to the FYE 2008 MDCH audit, the Health Department planned to change their fee determination methodology to use a percent of insurance fee screen rates, and to monitor the adequacy of charges and make adjustments as necessary. However, it appears adjustments have not been made as necessary. Also, since 3rd Party fee screen rates have no correlation to internal costs, the use of these fee screen rates to establish billing rates will not ensure the rates are sufficient to recover cost. Action is needed to ensure billing rates are designed to recover the cost of providing the services.

Recommendation

We again 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.

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 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 financial activity to MDCH in accordance with applicable Department of Community Health requirements and agreements, applicable federal standards, and generally accepted accounting principles. However, the Health Department's allocation of Salaries and Wages to the Family Planning Program did not comply with Federal regulations (Finding 2).

Finding

2. Unacceptable Method of Allocating Salaries & Wages

The Health Department did not properly document and allocate employees' salaries and wages for employees working on multiple activities in accordance with OMB Circular A-87.

The Health Department has two programs in the same clinic (Women's Health and Family Planning). All expenses, including salaries and wages, are allocated at 58% to Women's Health and 42% to Family Planning. No personnel activity reports are maintained by the Health Department.

Unless prior approval is obtained from the grantor, this methodology is not acceptable according OMB Circular A-87.

OMB Circular A-87 (2 CFR Part 225), Appendix B, subsection 8. h. (4) states:

Where employees work on multiple activities or cost objectives, a distribution of their salaries and wages will be supported by personnel activity reports or equivalent documentation which meets the standards in subsection 8.h.(5) of this appendix unless a statistical sampling system or other substitute system has been approved by the cognizant Federal agency.

Subsection 8. h. (5) states:

Personnel activity reports or equivalent documentation must meet the following standards:

- (a) They must reflect an after-the-fact distribution of the actual activity of each employee,*
- (b) They must account for the total activity for which each employee is compensated,*
- (c) They must be prepared at least monthly and must coincide with one or more pay periods,*
and
- (d) They must be signed by the employee.*

- (e) *Budget estimates or other distribution percentages determined before the services are performed do not qualify as support for charges to Federal awards but may be used for interim accounting purposes, provided that:*
- (i) *The governmental unit's system for establishing the estimates produces reasonable approximations of the activities actually performed;*
 - (ii) *At least quarterly, comparisons of actual costs to budgeted distribution based on the monthly activity reports are made. Costs charged to Federal awards to reflect adjustments made as a result of the activity actually performed may be recorded annually if the quarterly comparisons show the difference between budgeted and actual costs are less than ten percent; and*
 - (iii) *The budget estimates or other distribution percentages are revised at least quarterly, if necessary, to reflect changed circumstances.*

Recommendation

We recommend that the Health Department adopt policies and procedures to ensure compliance with OMB Circular A-87 regarding the proper allocation of salaries and wages when employees work in multiple programs.

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, 2011 is \$424,676. 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 Program funding.

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

	BUDGETED	REPORTED	AUDIT ADJUSTMENT	ALLOWABLE
REVENUES:				
MDCH Grant	\$424,676	\$424,676 1	\$0	\$424,676
Fees 1 st & 2 nd Party	\$3,354	\$4,507	(\$100) 4	\$4,407
Fees & Collections – 3 rd Party	\$391,314	\$603,990	(\$1,649) 4	\$602,341
Local Funds	\$228,708	\$14,879	\$21,203	\$36,082
TOTAL REVENUES	\$1,048,052	\$1,048,052	\$19,454	\$1,067,506
EXPENDITURES:				
Salary & Wages	\$409,541	\$469,634	\$0	\$469,634
Fringe Benefits	\$185,837	\$188,380	\$0	\$188,380
Supplies	\$167,607	\$99,607	\$3,357 3	\$102,964
Travel	\$4,088	\$1,011	\$0	\$1,011
Communications	\$4,419	\$4,218	\$0	\$4,218
Space Cost	\$26,469	\$26,024	\$0	\$26,024
Other Expenses	\$28,300	\$37,824	\$10,000 2	\$47,824
Admin Overhead	\$100,046	\$101,861	\$0	\$101,861
Billing/Reporting CHC Allocation	\$121,745	\$119,493	\$6,097 2	\$125,590
TOTAL EXPENDITURES	\$1,048,052	\$1,048,052	\$19,454	\$1,067,506

- 1** Actual MDCH payments provided on a performance reimbursement basis.
2 Line items, reported to conform to E-Grams requirements, were adjusted to actual cost.
3 Under reported Drugs & Pharmaceuticals due to miscoding. (Comments/Recommendations)
4 Immaterial reporting differences.

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

	<u>Procedure</u>	<u>Total Quantity</u>	<u>Price</u>	<u>Total</u>
99384	Initial Exam 12-17	32	\$189.00	\$6,048.00
99385	Initial Exam 18-39	566	\$189.00	\$106,974.00
99386	Initial Exam 40-64	41	\$220.00	\$9,020.00
99394	Established Exam 12-17	50	\$164.00	\$8,200.00
99395	Established Exam 18-39	1567	\$164.00	\$256,988.00
99396	Established Exam 40-64	30	\$180.00	\$5,400.00
99211	Medical Revisit – Min Problem	3017	\$27.00	\$81,459.00
99212	Medical Revisit – Problem Focused	403	\$55.00	\$22,165.00
99213	Medical Revisit – Expanded Focus	145	\$86.00	\$12,470.00
99201	New Visit – Problem Focused	52	\$55.00	\$2,860.00
99202	New Visit – Expanded Focus	53	\$95.00	\$5,035.00
99203	New Visit – Detailed – Low Complexity	16	\$128.00	\$2,048.00
81025	Pregnancy Test	2536	\$11.00	\$27,896.00
85018	Hematology	117	\$4.00	\$468.00
81002	Urinalysis	108	\$4.00	\$432.00
87210	Wet Prep	1103	\$7.00	\$7,721.00
11976	Implanon Removal	8	\$101.00	\$808.00
36415	Venipuncture	2	\$4.00	\$8.00
57170	Diaphragm Fitting	1	\$108.00	\$108.00
58300	IUD Insert	124	\$101.00	\$12,524.00
58301	IUD Removal	55	\$230.00	\$12,650.00
A4266	Oral Contraceptives	2349	\$17.00	\$39,933.00
J1055	Depo Provera	1331	\$33.00	\$43,923.00
A4267	Male Condoms per dozen	3652	\$0.96	\$3,505.92
A4269	Jelly	255	\$9.00	\$2,295.00
J7303	Nuva Ring	564	\$33.00	\$18,612.00
Z8506	Plan B	398	\$11.00	\$4,378.00
	Diaphragm	1	\$25.00	\$25.00
S4989	IUD – Paraguard	29	\$304.00	\$8,816.00
58300	IUD – Levonorgestral	62	\$485.00	\$30,070.00
				\$732,839.92
	Total Expenses			\$1,067,506.00
	(Shortfall)/Excess			(\$334,666.08)

Corrective Action Plan

Finding Number: 1

Page Reference: 3

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

The Health Department's billing rates for family planning services and supplies were generally too low to recover cost. Therefore, clients from households with an annual income that exceeded 250% of the poverty guideline were not charged for the reasonable cost of providing services as required by Title X regulations. This was also cited in the FYE 2008 MDCH audit.

Recommendation: Comply with the Title X regulations by increasing billing rates to an amount that is sufficient to recover the reasonable cost of services.

Comments: The Health Department operates a network of Community Health Centers with 9 locations in the greater Lansing area within Ingham County. The Family Planning Program is one of a set of comprehensive services provided to clients seen within the network. Billing rates are set for the entire network, not by individual program, and are currently based on 115% of Blue Cross/Blue Shield (BCBS) fee screen rates. For those services not covered by BCBS, 135% of Medicaid fee screen rates are utilized. It should also be noted that if the network providers are not operating at full capacity (i.e., due to turnover/extended illness, etc.), charges (which are driven by provider productivity) may not cover operational costs in a particular program or in the short term.

Corrective Action: The Health Department is performing an analysis of visits and procedures for FY 2011, and working on the development of a fee schedule incorporating the cost of operations and prevailing market rates.

After the new billing rates are developed and approved by the Community Health Center Network Board and Ingham County Board of Commissioners, the billing rates will be implemented across the network.

Anticipated

Completion Date: January 1, 2013, with ongoing review.

MDCH Response: We agree with the planned corrective actions, which includes an analysis of visits and procedures, and consideration of the cost of operations. This should ensure billing rates are sufficient to recover the cost of services.

Corrective Action Plan

Finding Number: 2

Page Reference: 4

Finding: Unacceptable Method of Allocating Salaries & Wages

The Health Department did not properly document and allocate employees' salaries and wages for employees working on multiple activities in accordance with OMB Circular A-87.

Recommendation: Adopt policies and procedures to ensure compliance with OMB Circular A-87 regarding the proper allocation of salaries and wages when employees work in multiple programs.

Comments: The methodology used is based upon after the fact, actual activity within the Women's Health Clinic.

Corrective Action: The Health Department will institute procedures to comply with A-87 (i.e., obtaining cognizant agency approval, time studies, etc.).

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

MDCH Response: While the methodology used may be based upon after the fact, actual activity within the Women's Health Clinic, it does not meet the Federal requirements. Distributions of salaries and wages must be based on individual employee activity that is supported by personnel activity reports that meet the requirements of OMB Circular A-87. Any other method must receive approval by the cognizant Federal agency.

Comments and Recommendations

1. Miscoded Expenditures

The Health Department allocates all expenses at 58% to Women's Health and 42% to the Family Planning Program except for Drug & Pharmaceuticals and Medical Services which are 100% Family Planning. Two invoices for oral contraceptives were coded to Medical Supplies which resulted in understating Drug & Pharmaceuticals by \$3,357 for the Family Planning Program.

Recommendation

We recommend that the Health Department adopt policies and procedures to ensure the proper coding of all expenses to ensure proper allocations to the appropriate programs.

Health Department Response: The Health Department added a Community Health Center Network Financial Coordinator in March 2012, dedicated to the financial management of its Community Health Center network. Included in the job duties and responsibilities is the review of the Community Health Center general ledger for the proper recording and reporting of grant expenditures.