

# Audit Report

Luce-Mackinac-Alger-Schoolcraft District Health Department  
Family Planning and WIC Programs

October 1, 2009 – September 30, 2010



Office of Audit  
Quality Assurance and Review  
December 2011



RICK SNYDER  
GOVERNOR

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

OLGA DAZZO  
DIRECTOR

December 2, 2011

Nicholas Derusha, Health Officer  
LMAS District Health Department  
14150 Hamilton Lake Rd.  
Newberry, Michigan 49868

Dear Mr. Derusha:

Enclosed is our final report from the Michigan Department of Community Health (MDCH) audit of the LMAS District Health Department Family Planning and WIC Programs for the period October 1, 2009 through September 30, 2010.

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, findings, and recommendations are organized by audit objective. The Corrective Action Plans include the agency's paraphrased response to the Preliminary Analysis.

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: Stan Bien, Director, WIC Division  
Paulette Dobyne Dunbar, Manager, Division of Family and Community Health  
Pam Myers, Director, Office of Audit  
Keith Rubley, Auditor, Office of Audit  
Michael Gribbin, Auditor, Office of Audit

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## **DESCRIPTION OF AGENCY**

The Luce-Mackinac-Alger-Schoolcraft District Health Department (Health Department) is governed under the Public Health Code, Act 368 of 1978. The Health Department is a Special Revenue Fund of Luce County, which is the reporting entity, and the administrative office is located in Newberry, Michigan. The Health Department operates under the legal supervision and control of the Board of Health, which is comprised of commissioners of Luce, Mackinac, Alger and Schoolcraft Counties. The Health Department provides community health program services to the residents of Luce, Mackinac, Alger and Schoolcraft Counties. These service programs include: Food Service Sanitation, On-Site Sewage, Drinking Water, Vision Screening, Hearing Screening, Immunizations, Breast and Cervical Cancer Control Program, Women Infant and Children Supplemental Food Program, Bioterrorism Preparedness, Medicaid Outreach, Sexually Transmitted Disease Control, Communicable Disease Control 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 (FSRs) 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 Second Party Fees and Collections, and Local 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.

The WIC Program was funded by MDCH Grant Funds, and Other Local Funds. 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 and WIC Programs.
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.
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, 2009 to September 30, 2010. Our review procedures included the following:

- Reviewed the most recent Health Department Single Audit report for any Family Planning Program or WIC Program concerns.
- Completed an internal control questionnaire.
- Reconciled the Family Planning Program and WIC 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 and WIC Programs.

**Conclusion:** The Health Department was effective in establishing and implementing internal controls over the Family Planning and WIC Programs. No internal control exceptions were noted.

## **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 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. However, an exception was noted in the classification of wages paid in lieu of insurance (Finding 1), and an unallowable expense for bad debts was reported in the Family Planning Program (Finding 2).

### **Finding**

#### **1. Payment in Lieu of Insurance Misclassified**

The Health Department improperly reported salary and wages as fringe benefits expense when employees with other health insurance opt out of the Health Department’s plan and are compensated for this option.

Payments to employees that opt out of the Health Department’s health insurance plan are recorded as “Cash in Lieu of Insurance” on the general ledger, but are improperly classified as a fringe benefit on the FSR. This misclassification was \$412 for the Family Planning Program and \$444 for the WIC Program. Generally Accepted Accounting Principles (GAAP) require the classification of taxable payments to employees as salary and wages and not a fringe benefit, and costs must be properly classified on the FSR.

Adjustments to properly classify costs are shown on the attached Statements of MDCH Grant Program Revenues and Expenditures.

### **Recommendation**

We recommend that the Health Department adopt policies and procedures to ensure payments to employees opting out of the Health Department’s insurance program are properly classified as salary and wages on FSRs in the future.

**Finding**

**2. Unallowable Expense Reported on FSR**

The Health Department included Bad Debt Expense of \$3,521 as Other Expenses on the FSR for the Family Planning Program in violation of contractually-required cost principles.

The Health Department's agreement with MDCH requires compliance with OMB Circular A-87. OMB Circular A-87, located at 2 CFR 225, Appendix B, Section 5, states:

*Bad debts. Bad Debts, including losses (whether actual or estimated) arising from uncollectable accounts and other claims, related collection costs, and related legal costs, are unallowable.*

The Health Department should only record allowable expenditures on the FSR.

An adjustment to remove the unallowable expense is shown on the attached Statement of MDCH Grant Program Revenues and Expenditures for the Family Planning Program.

**Recommendation**

We recommend that the Health Department adopt policies and procedures to ensure that unallowable costs are not included on the FSRs in the future.

**MDCH SHARE OF COSTS AND BALANCE DUE**

**Objective 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.

**Conclusion:** The MDCH obligation under the Family Planning Program for fiscal year ended September 30, 2010, is \$46,221, and under the WIC Program is \$160,965. The attached Statements of MDCH Grant Program Revenues and Expenditures show the budgeted, reported, and allowable costs. The audit made no adjustments affecting the Family Planning or WIC Programs.

**LMAS County Health Department  
Family Planning Program  
Statement of MDCH Grant Program Revenues and Expenditures  
10/1/09 - 9/30/10**

	<b>BUDGETED</b>	<b>REPORTED</b>	<b>AUDIT ADJUSTMENT</b>	<b>ALLOWABLE</b>
<b>REVENUES:</b>				
MDCH Grant	\$46,221	\$46,221 <b>1</b>	\$0	\$46,221
Fees 1 <sup>st</sup> & 2 <sup>nd</sup> Party	\$65,080	\$56,293	\$0	\$56,293
Fees & Collections - 3 <sup>rd</sup> Party	\$0	\$0	\$0	\$0
Fed/State Funding (Non-MDCH)	\$15,600	\$0	\$0	\$0
Local MCH	\$33,537	\$33,537	\$0	\$33,537
Fam Plan QTR Supplies	\$0	\$55	\$0	\$55
MDCH Non-CPBC	\$225	\$0	\$0	\$0
Local Funds Other	\$101,641	\$84,377	(\$3,521)	\$80,856
<b>TOTAL REVENUES</b>	<b>\$262,304</b>	<b>\$220,483</b>	<b>(\$3,521)</b>	<b>\$216,962</b>
<b>EXPENDITURES:</b>				
Salary and Wages	\$104,827	\$91,188	\$412 <b>2</b>	\$91,600
Fringe Benefits	\$35,128	\$27,038	(\$412) <b>2</b>	\$26,626
Supplies	\$31,925	\$26,461	\$0	\$26,461
Travel	\$2,750	\$2,742	\$0	\$2,742
Communications	\$4,830	\$8,029	\$0	\$8,029
Other Expenses	\$2,860	\$5,947	(\$3,521) <b>3</b>	\$2,426
Admin Overhead	\$79,984	\$59,077	\$0	\$59,077
<b>TOTAL EXPENDITURES</b>	<b>\$262,304</b>	<b>\$220,482</b>	<b>(\$3,521)</b>	<b>\$216,961</b>

- 1** Actual MDCH payments provided on a performance reimbursement basis.  
**2** Cash in Lieu of Insurance is Salary and Wages and not Fringe Benefits (Finding 1).  
**3** Bad Debt expense is an unallowable cost (Finding 2).

**LMAS County Health Department  
WIC Program  
Statement of MDCH Grant Program Revenues and Expenditures  
10/1/09 - 9/30/10**

	<b>BUDGETED</b>	<b>REPORTED</b>	<b>AUDIT ADJUSTMENT</b>	<b>ALLOWABLE</b>
<b>REVENUES:</b>				
MDCH Grant	\$160,965	\$160,965 <b>1</b>	\$0	\$160,965
Fees 1 <sup>st</sup> & 2 <sup>nd</sup> Party	\$0	\$903	\$0	\$903
Other (Non-LPHO)	\$0	\$250	\$0	\$250
Local Funds Other	\$25,648	\$29,781	\$0	\$29,781
<b>TOTAL REVENUES</b>	<b>\$186,613</b>	<b>\$191,899</b>	<b>\$0</b>	<b>\$191,899</b>
<b>EXPENDITURES:</b>				
Salary and Wages	\$82,498	\$88,157	\$444 <b>2</b>	\$88,601
Fringe Benefits	\$27,645	\$26,397	(\$444) <b>2</b>	\$25,953
Supplies	\$250	\$610	\$0	\$610
Travel	\$3,850	\$5,144	\$0	\$5,144
Communications	\$3,783	\$7,548	\$0	\$7,548
Other Expenses	\$5,640	\$6,803	\$0	\$6,803
Admin Overhead	\$62,947	\$57,241	\$0	\$57,241
<b>TOTAL EXPENDITURES</b>	<b>\$186,613</b>	<b>\$191,900</b>	<b>\$0</b>	<b>\$191,900</b>

- 1** Actual MDCH payments provided on a performance reimbursement basis.  
**2** Cash in Lieu of Insurance is Salary and Wages and not Fringe Benefits (Finding 1).

## Corrective Action Plan

**Finding Number:** 1

**Page Reference:** 3

**Finding:** Payment in Lieu of Insurance Misclassified

The Health Department improperly reported salary and wages expense as fringe benefits expense when employees with other health insurance opt out of the Health Department's plan and are compensated for this option.

**Recommendation:** Adopt policies and procedures to ensure payments to employees opting out of the Health Department's insurance program are properly classified as salary and wages on FSRs in the future.

**Comments:** LMAS agrees to comply with the above recommendation. The LMAS Finance Director was unaware that compensation in lieu of health insurance should be classified as wages rather than as fringe benefits. There will be no net change in expenses, as this will simply re-categorize this expense from one line item to another.

**Corrective Action:** LMAS will update their FSR report to properly classify compensation in lieu of health insurance as wages rather than fringe benefits.

**Anticipated Completion Date:** 12/16/11

**MDCH Response:** None

## Corrective Action Plan

**Finding Number:** 2

**Page Reference:** 4

**Finding:** Unallowable Expense Reported on FSR

The Health Department included Bad Debt Expense of \$3,521 as Other Expenses on the FSR for the Family Planning Program in violation of contractually-required cost principles.

**Recommendation:** Adopt policies and procedures to ensure that unallowable costs are not included on the FSRs in the future.

**Comments:** LMAS is in agreement with the above stated finding. The LMAS Finance Director was unaware that Bad Debt Expense may not be included as an expense on the FSR.

**Corrective Action:** LMAS will update their FSR procedure to reflect that Bad Debt Expense MAY NOT be included on future FSRs.

**Anticipated  
Completion Date:** 12/16/2011

**MDCH Response:** None