

Audit Report

Mid-Michigan District Health Department
Family Planning, WIC and WIC Breastfeeding Programs

October 1, 2012 – September 30, 2013



Office of Audit
Quality Assurance and Review
July 2014



RICK SNYDER
GOVERNOR

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

JAMES K. HAVEMAN
DIRECTOR

July 28, 2014

Marcus Cheatham, Health Officer
Mid-Michigan District Health Department
615 N. State St., Suite 2
Stanton, Michigan 48888-9702

Dear Mr. Cheatham:

Enclosed is our final report from the Michigan Department of Community Health (MDCH) audit of the Mid-Michigan District Health Department Family Planning and WIC 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 Schedule; Corrective Action Plan; and Comments and Recommendations. The conclusions, findings, and recommendations are organized by audit objective. The Corrective Action Plan, and Comments and Recommendations 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
Jeanette Lightning, Manager, Reproductive Health Unit
Pam Myers, Director, Office of Audit
Keith Rubley, Auditor, Office of Audit
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DESCRIPTION OF AGENCY

The Mid Michigan 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 Montcalm County, which is the reporting entity, and the administrative office is located in Stanton, 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 Clinton, Gratiot, and Montcalm. The Health Department provides community health program services to the residents of these three counties. These service programs include: Food Service Sanitation, On-Site Sewage, Drinking Water, Vision Screening, Hearing Screening, Immunizations, General Communicable Disease Control, Sexually Transmitted Disease Control, Children's Special Health Care Services, Dental Care, Women Infant and Children Supplemental Food Program (WIC), WIC Peer Counselling, Bioterrorism/Emergency 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, and Other Local Funds. Grant funding from MDCH for the WIC and WIC Breastfeeding 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 Program, WIC Program, and WIC Breastfeeding Program 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, WIC, and WIC Breastfeeding Programs.
2. To assess the Health Department's effectiveness in reporting their Family Planning Program, WIC Program, and WIC Breastfeeding 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 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 Montcalm County Single Audit report for any Family Planning Program, WIC Program, or WIC Breastfeeding Program concerns.
- Reviewed the completed internal control questionnaire.
- Reconciled the Family Planning Program, WIC Program, and WIC Breastfeeding 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 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, WIC, and WIC Breastfeeding Programs.

Conclusion: The Health Department was effective in establishing and implementing internal controls over the Family Planning, WIC, and WIC Breastfeeding 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 2008 and FYE 2011 MDCH audits, and an actual cost analysis was not performed to establish billing rates (Finding 1).

Finding

1. Billing Rates Not Sufficient to Recover Cost and Insufficient 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% 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 and FYE 2011 MDCH audits. In addition, an actual cost analysis was not used to set fees.

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 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.

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 reported cost of \$494,163 we found the rates used would not recover \$122,342 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 recoverable from all clients was \$12,888 and the billing rates were 24.76% below cost, we can estimate the effect was approximately \$4,241 for the year.

While this issue was cited in the past two MDCH audits, it is recognized that actions were taken to rectify the situation. Fees were adjusted and total costs declined. However, a reduced caseload appears to be a contributing factor causing the maximum annual potential recovery from fees to not be sufficient to recover costs.

Recommendation

We recommend that the Health Department complete a cost analysis, and comply with the Title X regulations by adjusting billing rates to amounts that are 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 Family Planning Program, WIC Program, and WIC Breastfeeding 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 was effective in reporting their Family Planning Program, WIC Program, and WIC Breastfeeding Program financial activity to MDCH in accordance with applicable Department of Community Health requirements and agreements, applicable federal standards, and generally accepted accounting principles.

MDCH SHARES OF COST AND BALANCE DUE

Objective 3: To determine the MDCH shares of cost 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 is \$198,835, under the WIC Program is \$685,014, and under the WIC Breastfeeding Program is \$107,079 for the fiscal year ended September 30, 2013. 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, WIC Program, or WIC Breastfeeding Program funding.

**Mid-Michigan District 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	\$685,014	\$685,014 ¹	\$0	\$685,014
Fees 1 st & 2 nd Party	\$100	\$0	\$0	\$0
Local Non-ELPHS	\$100	\$0	\$0	\$0
Local Funds	\$293,892	\$165,223	\$0	\$165,223
TOTAL REVENUES	\$979,106	\$850,237	\$0	\$850,237
EXPENDITURES:				
Salary & Wages	\$386,221	\$329,555	\$0	\$329,555
Fringe Benefits	\$181,524	\$151,697	\$0	\$151,697
Supplies	\$18,000	\$9,180	\$0	\$9,180
Travel	\$16,000	\$7,399	\$0	\$7,399
Communications	\$1,500	\$873	\$0	\$873
Space Cost	\$75,000	\$65,586	\$0	\$65,586
Other Expense	\$7,000	\$4,292	\$0	\$4,292
Admin Overhead	\$153,291	\$125,753	\$0	\$125,753
Other Costs Distribution	\$140,570	\$155,902	\$0	\$155,902
TOTAL EXPENDITURES	\$979,106	\$850,237	\$0	\$850,237

¹ Actual MDCH payments provided on a performance reimbursement basis.

**Mid-Michigan District Health Department
WIC Breastfeeding Program
Statement of MDCH Grant Program Revenues and Expenditures
10/1/2 - 9/30/13**

	BUDGETED	REPORTED	AUDIT ADJUSTMENT	ALLOWABLE
REVENUES:				
MDCH Grant	\$107,079	\$107,079 ¹	\$0	\$107,079
Local Funds	\$43,237	\$2,461	\$0	\$2,461
TOTAL REVENUES	\$150,316	\$109,540	\$0	\$109,540
EXPENDITURES:				
Salary & Wages	\$66,778	\$49,578	\$0	\$49,578
Fringe Benefits	\$15,195	\$8,716	\$0	\$8,716
Supplies	\$2,500	\$1,631	\$0	\$1,631
Travel	\$3,000	\$1,928	\$0	\$1,928
Communications	\$1,000	\$837	\$0	\$837
Space Cost	\$15,000	\$12,734	\$0	\$12,734
Other Costs	\$500	\$0	\$0	\$0
Admin Overhead	\$18,922	\$15,232	\$0	\$15,232
Other Cost Distributions	\$27,421	\$18,884	\$0	\$18,884
TOTAL EXPENDITURES	\$150,316	\$109,540	\$0	\$109,540

¹ Actual MDCH payments provided on a performance reimbursement basis

**Mid-Michigan District 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	\$113,631	\$113,631 ¹	\$0	\$113,631
MCH Funding	\$85,204	\$85,204	\$0	\$85,204
Fees 1 st & 2 nd Party	\$20,000	\$12,900	(\$12) ²	\$12,888
Fees & Collections - 3 rd Party	\$120,000	\$93,282	\$28,083 ²	\$121,365
Fed Cost Based Reimbursement	\$50,000	\$15,725	\$0	\$15,725
Local Non-ELPHS	\$25,000	\$21,224	\$0	\$21,224
Other Non-ELPHS	\$100	\$2,404	(\$2,404) ²	\$0
Local Funds	\$206,043	\$149,793	(\$25,667) ²	\$124,126
TOTAL REVENUES	\$619,978	\$494,163	\$0	\$494,163
EXPENDITURES:				
Salary & Wages	\$206,932	\$164,745	\$0	\$164,745
Fringe Benefits	\$103,466	\$87,288	\$0	\$87,288
Supplies	\$90,000	\$57,943	\$0	\$57,943
Travel	\$15,000	\$9,040	\$0	\$9,040
Communications	\$200	\$113	\$0	\$113
Space Cost	\$32,000	\$24,697	\$0	\$24,697
Other Expense	\$5,000	\$2,832	\$0	\$2,832
Admin Overhead	\$83,497	\$65,858	\$0	\$65,858
Other Cost Distributions	\$83,883	\$81,647	\$0	\$81,647
TOTAL EXPENDITURES	\$619,978	\$494,163	\$0	\$494,163

¹ Actual MDCH payments provided on a performance reimbursement basis.

² Under reported commercial fees and reporting donations twice (Comments and Recommendations).

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

<u>Procedure</u>	<u>Total Quantity</u>	<u>Price</u>	<u>Total</u>
Established Exam 5-11	1	\$130.00	\$130.00
Established Exam 12-17	46	\$140.00	\$6,440.00
Established Exam 18-39	451	\$140.00	\$63,140.00
Established Exam 40-64	23	\$150.00	\$3,450.00
Initial Exam 12-17	83	\$160.00	\$13,280.00
Initial Exam 18-39	179	\$160.00	\$28,640.00
Initial Exam 40-64	7	\$180.00	\$1,260.00
Established Office Visit	244	\$40.00	\$9,760.00
Established Recheck	76	\$30.00	\$2,280.00
Nurse Visit Only	1,512	\$45.00	\$68,040.00
IUD Insert	48	\$100.00	\$4,800.00
IUD Removal	41	\$100.00	\$4,100.00
Capillary Blood Draw	182	\$10.00	\$1,820.00
State Lab Fee CT	34	\$38.54	\$1,310.36
Hemoglobin Test	189	\$5.00	\$945.00
Urinalysis Dip	9	\$5.00	\$45.00
Thin Prep Pap	83	\$15.00	\$1,245.00
Pap Smear	307	\$15.00	\$4,605.00
Microscopy	12	\$8.00	\$96.00
Pregnancy Test	331	\$10.00	\$3,310.00
Diflucan	19	\$1.00	\$19.00
Condyloma TX	5	\$20.00	\$100.00
Iron FeSO4	6	\$8.00	\$48.00
Metronidazole 4 count	1	\$10.00	\$10.00
Metronidazole 14 count	19	\$20.00	\$380.00
Birth Control Pills	5,107	\$20.00	\$102,140.00
Depo-Provera	530	\$25.00	\$13,250.00
Condoms	16,672	\$0.25	\$4,168.00
Foam	68	\$10.00	\$680.00
Cream	4	\$20.00	\$80.00
Nuva Ring	375	\$30.00	\$11,250.00
Ortho Patch	189	\$30.00	\$5,670.00
Plan B	70	\$34.00	\$2,380.00
IUD Paragard	15	\$240.00	\$3,600.00
IUD Mirena	22	\$425.00	\$9,350.00
			\$371,821.36
Total Expenses			\$494,162.91
(Shortfall)/Excess			(\$122,341.55)

Corrective Action Plan

Finding Number: 1

Page Reference: 3

Finding: **Billing Rates Not Sufficient to Recover Cost and Insufficient 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% 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 and FYE 2011 MDCH audits. In addition, an actual cost analysis was not used to set fees.

Recommendation: Complete a cost analysis, and comply with the Title X regulations by adjusting billing rates to amounts that are 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, 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 Mid-Michigan District Health Department did increase fees in the Family Planning Program in January of 2013 in an effort to adjust the billing rates to amounts that are sufficient to recover the reasonable cost of services. However, a decrease in the number of services performed created a deficiency in the actual billing rate compared to the cost of services. The agency increased Family Planning outreach efforts during the year in an effort to increase services and serve our communities. Also, the decline in services was not a steady decline but instead we had busy and slow times. Therefore, the cost of the program did not decline significantly due to keeping the same staffing level.

Corrective Action: The Mid-Michigan District Health Department will conduct a cost analysis to establish an effective rate for each procedure in an effort to set the billing rate for Family Planning services and supplies that are sufficient to recover the reasonable cost of the services.

**Anticipated
Completion Date:** December 31, 2014

MDCH Response: None

Comments and Recommendations

1. Under Reported Revenue and Donations Reported Twice

The Health Department excluded revenue from commercial insurance companies from the Family Planning Program FSR, and reported donations twice on the Family Planning Program FSR. The MDCH contract, Part II, Section IV. D. Financial Status Report Submission, requires that FSRs be prepared in accordance with the Department's FSR Instructions. The FSR Instructions require the reporting of fees and collections received during the current report period. Adjustments are shown on the attached Statement of MCH Grant Program Revenues and Expenditures. The offset was to local funding and did not affect the MDCH funding.

Recommendation

We recommend that the Health Department adopt policies and procedures to ensure revenue is accurately reported on FSRs.

Health Department Response

The Mid-Michigan District Health Department (MMDHD) utilizes financial software that has customizable reports. One of the customizable reports is utilized for FSR. There was one line item that was not added to this report when it was added to the chart of accounts and one line item was duplicated (listed in two different places). MMDHD has verified that all information is accurate in the reports. Additionally, MMDHD will cross reference the customizable report to the trial balance at least annually with the last FSR to ensure that all revenues and expenditures are captured. MMDHD will create a financial policy and procedure to this effect.