

Audit Report

Midland County Health Department Family Planning Program

October 1, 2008 – September 30, 2009



Office of Audit
Quality Assurance and Review Section
August 2010



JENNIFER M. GRANHOLM
GOVERNOR

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

JANET OLSZEWSKI
DIRECTOR

August 9, 2010

C. Michael Krecek, R.S., M.A.
Health Officer
Midland County Health Department
220 W. Ellsworth Street
Midland, Michigan 48640-5194

Dear Mr. Krecek:

Enclosed is our final report from the Michigan Department of Community Health (MDCH) audit of the Midland County Health Department Family Planning Program for the period October 1, 2008 through September 30, 2009.

The final report contains the following: description of agency; funding methodology; purpose and objectives; scope and methodology; conclusions, findings and recommendations; Statement of MDCH Grant Program Revenues and Expenditures; Costs vs. Amounts Billed for Supplies and Services Schedule; and corrective action plan. The conclusions, findings, and recommendations are organized by audit objective. The corrective action plan includes the agency's paraphrased response to the Preliminary Analysis. The Costs vs. Amounts Billed for Supplies and Services Schedule has been corrected to show the proper service codes and quantities. Thank you for providing us with the correct codes and quantities.

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
Pam Myers, Director, Office of Audit
David Figg, Audit Manager, Office of Audit

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DESCRIPTION OF AGENCY

The Midland 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 Midland County, and the administrative office is located in Midland, Michigan. The Health Department operates under the legal supervision and control of the Board of Commissioners of Midland County. The Health Department provides community health program services to the residents of Midland County. These services include: Food Service Sanitation, On-Site Sewage, Drinking Water, Vision Screening, Hearing Screening, Immunizations, General Communicable Disease, Sexually Transmitted Disease Control, Children's Special Health Care Services, Child Health, Maternal and Infant Support, Medicaid Outreach, Bioterrorism/Emergency Preparedness/Pandemic Flu, 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, and 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 MDCH 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, 2008 to September 30, 2009. Our review procedures included the following:

- Reviewed the most recent Midland County Single Audit report for any Family Planning Program concerns.
- Completed the internal control questionnaire.
- Reconciled the Family Planning Program Financial Status Report (FSR) to the accounting records.
- Tested a sample of expenditures for program compliance, and policy and approval procedures.
- Reviewed indirect cost and other cost allocations for reasonableness, and an equitable methodology.
- Reviewed payroll expenditures.
- 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.

Conclusion: The Health Department was generally effective in establishing and implementing internal controls over the Family Planning Program. However, we noted there is no physical inventory of Family Planning medical supplies (Finding 1).

Finding

1. Lack of Physical Inventory of Family Planning Medical Supplies

The Health Department does not maintain a perpetual inventory log and does not perform a periodic physical inventory count of Family Planning medical supplies.

The Health Department keeps logs for each supply item; however, the logs are only used to document that each lot is used within the expiration date. Good internal controls over inventory include maintaining perpetual inventory logs of amounts received, used, and on hand, and verifying these logs with a periodic physical inventory count. Any significant variances should then be investigated.

Recommendation

We recommend that the Health Department implement a perpetual inventory log of Family Planning medical supplies received and used, and perform a physical inventory at least annually to verify the accuracy and investigate any significant variances.

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 MDCH 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 MDCH requirements and agreements, applicable federal standards, and generally accepted accounting principles. However, we noted an exception with Billing Rates (Finding 2).

Finding

2. Billing Rates Not Sufficient to Recover Cost

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.

The Health Department provided an analysis which 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 \$541,705 we found the rates used would not recover approximately \$283,498 of the cost (see Costs vs. Amounts Billed for Supplies and Services Schedule on page 6).

Title X regulations at 42 CFR 59.5 (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 percent of the Poverty Guidelines will not recover the reasonable cost of providing services.

The estimated effect is that an amount potentially recoverable from clients was paid from local revenues. Because the amount recovered from all clients was \$27,754, and billing rates were about 52.3% under cost, we can estimate the effect was approximately \$30,430 for the year.

Recommendation

We 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.

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, 2009, is \$112,348. 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 grant program funding.

**Midland County Health Department
Family Planning Program
Statement of MDCH Grant Program Revenues and Expenditures
10/1/08 - 9/30/09**

	BUDGETED	REPORTED	AUDIT ADJUSTMENT	ALLOWABLE
REVENUES:				
MDCH Grant	\$112,348	\$112,348 ¹	\$0	\$112,348
Fees & Col. - 1st & 2nd party	\$60,000	\$27,754	\$0	\$27,754
Fees & Col. - 3rd party	\$116,578	\$70,950	\$0	\$70,950
Cost Based Reimbursement	\$69,295	\$0	\$0	\$0
Cost Based Reimb. Match	\$6,930	\$0	\$0	\$0
Local and Other Funds	\$235,695	\$330,653	\$0	\$330,653
TOTAL REVENUES	\$600,846	\$541,705	\$0	\$541,705
EXPENDITURES:				
Salary and Wages	\$206,912	\$199,876	\$1,793 ²	\$201,669
Fringe Benefits	\$81,932	\$66,993	(\$1,793) ²	\$65,200
Supplies	\$141,182	\$109,315	\$0	\$109,315
Travel	\$1,100	\$1,109	\$0	\$1,109
Communications	\$1,200	\$78	\$0	\$78
County Central Service Cost	\$26,776	\$26,776	\$0	\$26,776
Space Cost	\$31,326	\$31,326	\$0	\$31,326
Other Expense	\$28,533	\$28,405	\$0	\$28,405
Indirect Cost - Admin	\$81,885	\$77,827	\$0	\$77,827
TOTAL EXPENDITURES	\$600,846	\$541,705	\$0	\$541,705

¹ Actual MDCH payments provided on a performance reimbursement basis.

² To reclassify longevity expense from fringe benefits to salary.

**Midland County Health Department
Family Planning
Cost vs. Amounts Billed for Supplies and Services
10/1/08 - 9/30/09**

<u>Code</u>	<u>Medication</u>	<u>Quantity</u>	<u>Price</u>	<u>Total</u>
A4266	Diaphragms	2	\$18.50	\$37.00
AL	Alesse	3	\$7.90	\$23.70
CYC	Cyclen	748	\$3.20	\$2,393.60
ECP	ECP	94	\$8.25	\$775.50
	Generic Oral			
GOC	Contraceptives	1957	\$7.90	\$15,460.30
J1051	Depo 104 Injection	985	\$9.60	\$9,456.00
J1055	Depo Provere Injection	133	\$14.35	\$1,908.55
J7302	Mirena UID	7	\$359.17	\$2,514.19
J7303	Vaginal Ring	1165	\$29.84	\$34,763.60
J7304	Contraceptive Patch	474	\$15.00	\$7,110.00
LO	LoOvral	150	\$4.66	\$699.00
ON150	Ortho Novum	24	\$10.00	\$240.00
POP	Progesterone Pill	6	\$4.44	\$26.64
TL	Tricyclen LO	3926	\$3.20	\$12,563.20
TRI	Tricyclen	723	\$3.20	<u>\$2,313.60</u>
				\$90,284.88
99395	Annual Exam	710	\$87.80	\$62,338.00
99211	Visit Minimal	4177	\$20.00	\$83,540.00
99213	Expanded 15 min-EP	4	\$63.73	\$254.92
	First Depo 30 min		\$43.90	\$0.00
58300	IUD Insert	8	\$54.90	\$439.20
58301	IUD Removal	1	\$58.99	\$58.99
99385	New 18-39	240	\$87.80	\$21,072.00
99203	Problem 30 min-NP	1	\$99.15	\$99.15
99201	Problem 10 min-NP	6	\$20.00	<u>\$120.00</u>
				\$167,922.26
	Total Potential Revenue			\$258,207.14
	Total Expenses			<u>\$541,705.00</u>
	Shortfall			<u><u>\$283,497.86</u></u>

Corrective Action Plan

Finding Number: 1

Page Reference: 2

Finding: Lack of Physical Inventory of Family Planning Medical Supplies

The Health Department does not maintain a perpetual inventory log and does not perform a physical inventory count of Family Planning medical supplies.

Recommendation: Implement a perpetual inventory log of Family Planning medical supplies received and used, and perform a physical inventory at least annually to verify accuracy and investigate any significant variances.

**Health Department
Comments:**

Currently, we are just tracking when we receive supplies and when we start a new lot number.

Corrective Action: As of July 15th, 2010, we will construct a data base in Access where the amount on-hand of each Family Planning medical supply will be entered. As supplies are received, the invoice for said supplies will be used to enter the amount into the database and a running total will be kept. Monthly, a supplies dispensed report will be run and those amounts will be subtracted from the amount on hand. Quarterly, the Clinic Director will perform a physical count of Family Planning medical supplies on site, and the numbers compared. Spot checks of charts will be done quarterly to discern where discrepancies might lie. A brief report will be generated quarterly detailing the results of the physical count compared to amounts on-hand.

Anticipated

Completion Date: Begin July 15th, 2010 and ongoing from there.

MDCH Response: No comment.

Corrective Action Plan

Finding Number: 2

Page Reference: 3

Finding: Billing Rates Not Sufficient to Recover Cost

The Health Department's billing rates for Family Planning services and supplies were generally too low to recover cost.

Recommendation: Increase the billing rates to an amount that is sufficient to recover the reasonable cost of services.

**Health Department
Comments:**

While we are willing to raise prices, last year we only had 52 clients who had an income over 250% of poverty. Consequently, we're not convinced raising prices will generate much revenue.

Corrective Action: As of July 15th, 2010, the Health Department will increase rates by 25% for exams, problem visits and procedures such as IUD insertions. Charges for birth control supplies are dictated by what is paid for those supplies. At the end of July, 2011, we will assess whether increasing our prices generated significantly more revenue, or resulted in increased amounts to be written off as uncollectible. We will decide at that time whether to increase rates again or let them remain. The Health Department may be "undercoding" services and will plan to bring in the billing supervisor from the local hospital to do a training session on coding for services.

**Anticipated
Completion Date:** July 15, 2010

MDCH Response: No comment.