

Audit Report

Midland County Health Department
Family Planning Program

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 26, 2012

C. Michael Krecek, RS, MA, Director/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, 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; Cost vs. Amounts Billed for Supplies and Services; 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

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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 Control, Sexually Transmitted Disease Control, Children's Special Health Care Services, Child Health, Maternal and Infant Support, Medicaid Outreach, Dental Services, Bioterrorism Preparedness, and Family Planning.

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 consists 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 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, 2010 to September 30, 2011. Our review procedures included the following:

- Reviewed the most recent Health Department Single Audit report for any Family Planning Program concerns.
- Completed the internal control questionnaire.
- Reconciled the Family Planning Program Financial Status Report 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 generally effective in establishing and implementing internal controls over the Family Planning Program. However, we noted one exception related to the Family Planning Program. We noted that billing rates were not sufficient to recover cost (Finding 1) as also noted in the FYE 2009 audit.

Finding

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

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.

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 program cost of \$516,988 we found the rates used would not recover \$167,789 of the cost (see Cost vs. Amounts Billed for Supplies and Services Schedule).

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. Since the amount recovered from all clients was \$25,296, we can estimate the effect was \$12,155 for the year. This difference, however, is much improved from the prior audit.

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. Two exceptions were noted which effected the FSR reporting (Findings 2 & 3).

Finding

2. Longevity Payments Classified as Fringe Benefits

The Health Department improperly classified longevity payments as fringe benefits on the FSR.

Generally Accepted Accounting Principles (GAAP) require the classification of taxable payments to employees as salaries and wages and not as a fringe benefit, and costs must be properly classified on the FSR.

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

Recommendation

We recommend that the Health Department adopt policies and procedures to ensure that all taxable payments to employees are properly recorded as salaries and wages on the FSRs in the future.

Finding

3. Financial Status Report (FSR) Errors

The Health Department's reported FSR amounts for several revenue and expenditure line items did not agree with the general ledger amounts, and reported FSR amounts for space cost and County/City Central Services did not agree with supporting documentation.

The Health Department's contract with MDCH, Part II, Section IV. D. Financial Status Report Submission, requires the Health Department to prepare the FSR in accordance with the Department's FSR instructions and to report total actual program expenditures. The FSR Instructions require the reporting of all expenditures and revenues for the particular program.

The Health Department's contract with MDCH, Part II, Section III. A. Compliance with Applicable Laws, requires the Health Department to comply with OMB Circular A-87. OMB Circular A-87, located at 2 CFR Part 225, Appendix A, Section C.1.j. requires costs to be adequately documented to be allowable.

The Health Department completed FSRs quarterly, and it appears subsequent adjustments were not picked up in the year-end cumulative FSR. Additionally, some year-end entries were not included in the year-end FSR. Accordingly, differences between the FSR and general ledger were noted in 1st and 2nd Party Fees, 3rd Party Fees and Collections, Salary and Wages, Supplies, Communications, and Other Expenses.

MAXIMUS calculates space and county central service costs for the Health Department and these costs are allocated to various programs based on square foot and budgeted FTEs, respectively. Documentation for these allocations showed that space cost was understated by \$1,381, and county central service cost was overstated by \$4,292.

Adjustments to properly report revenues and expenditures are shown on the attached Statement of MDCH Grant Program Revenues and Expenditures. The additional expenditures had no impact on MDCH funding since the grant funds were already used.

Recommendation

We recommend that the Health Department adopt policies and procedures to ensure that all revenues and expenditures are accurately reported on the FSRs and reported costs agree with supporting documentation.

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 \$82,909. 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
10/1/10 - 9/30/11**

	BUDGETED	REPORTED	AUDIT ADJUSTMENT	ALLOWABLE
REVENUES:				
MDCH Grant	\$82,909	\$82,909 1	\$0	\$82,909
Fees 1 st & 2 nd Party	\$35,000	\$25,305	(\$9) 3	\$25,296
Fees & Collections - 3 rd Party	\$101,000	\$69,609	\$4,683 3	\$74,292
Non-MDCH Funding	\$0	\$0	\$0	\$0
Local Funds	\$324,501	\$327,427	\$7,064	\$334,491
TOTAL REVENUES	\$543,410	\$505,250	\$11,738	\$516,988
EXPENDITURES:				
Salary & Wages	\$171,586	\$185,021	\$11,486 2,3	\$196,507
Fringe Benefits	\$87,348	\$77,264	(\$2,827) 2	\$74,437
Supplies	\$116,449	\$94,010	\$5,947 3	\$99,957
Travel	\$1,800	\$1,478	\$0	\$1,478
Communications	\$125	\$97	\$7 3	\$104
Admin Overhead	\$78,892	\$73,546	\$0	\$73,546
Other Expense	\$29,108	\$30,259	\$36 3	\$30,295
County/City Central Services	\$26,776	\$20,082	(\$4,292) 3	\$15,790
Space Cost	\$31,326	\$23,493	\$1,381 3	\$24,874
TOTAL EXPENDITURES	\$543,410	\$505,250	\$11,738	\$516,988

- 1** Actual MDCH payments provided on a performance reimbursement basis.
2 Longevity recorded as a Fringe Benefit rather than Salary & Wages (Finding 2).
3 Various FSR errors (Finding 3).

**Midland County Health Department
Family Planning
Cost vs. Amounts Billed for Supplies and Services Schedule**

	<u>Procedure</u>	<u>Total Quantity</u>	<u>Price</u>	<u>Total</u>
99384	Initial Exam 12-17	70	\$134.07	\$9,384.90
99385	Initial Exam 18-39	210	\$134.07	\$28,154.70
99386	Initial Exam 40-64	12	\$158.00	\$1,896.00
99394	Established Exam 12-17	45	\$108.47	\$4,881.15
99395	Established Exam 18-39	667	\$109.75	\$73,203.25
99396	Established Exam 40-64	89	\$121.28	\$10,793.92
99201	Visit New Problem Focused	31	\$24.00	\$744.00
99202	Visit New Expanded Problem	17	\$48.96	\$832.32
99203	Visit New Detailed	1	\$123.61	\$8.00
99211	Office Visit Minimal	2456	\$24.00	\$58,944.00
99212	Visit Est Problem Focused	158	\$34.31	\$5,420.98
99213	Visit Est Expanded Problem	1	\$79.66	\$79.66
81025	Pregnancy Test	282	\$6.19	\$1,745.58
90471	Injection	28	\$14.35	\$401.80
	Terazol 3	7	\$15.99	\$111.93
	Terazol 4	2	\$16.07	\$32.14
87801	Chlamydia	3	\$36.00	\$108.00
85013	Hemoglobin	313	\$2.61	\$816.93
87210	Wet Mount	823	\$2.61	\$2,148.03
81002	Urinalysis	288	\$1.15	\$331.20
	Oral Contraceptives	6541	\$6.88	\$45,002.08
J1055	Depo Provera	860	\$14.60	\$12,556.00
	Plan B	56	\$8.25	\$462.00
58301	IUD Removal	1	\$70.79	\$70.79
A4269	Foam	136	\$6.09	\$828.24
A4268	Female Condom	1	\$0.68	\$0.68
A4267	Male Condom	942	\$0.72	\$678.24
A4269	Gel	188	\$6.29	\$1,182.52
J7303	Nuva Ring	1632	\$48.00	\$78,336.00
J7304	Patch	372	\$27.00	\$10,044.00
				\$349,199.04
	Total Expenses			\$516,988.00
	(Shortfall)/Excess			(\$167,788.96)

Corrective Action Plan

Finding Number: 1

Page Reference: 2

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

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.

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

Corrective Action: The Health Department will review the fee schedule annually when reviewing the budget, and will increase rates as needed to comply with Title X regulations.

**Anticipated
Completion Date:** January 31, 2013

MDCH Response: None

Corrective Action Plan

Finding Number: 2

Page Reference: 3

Finding: Longevity Payments Classified as Fringe Benefits

The Health Department improperly classified longevity payments as fringe benefits on the FSR.

Recommendation: Adopt policies and procedures to ensure that all taxable payments to employees are properly recorded as salaries and wages on the FSRs in the future.

Corrective Action: The Health Department will write a departmental procedure stating “all taxable payments to employees are to be recorded as part of salary and wages on MDCH FSRs.”

**Anticipated
Completion Date:** December 15, 2012

MDCH Response: None

Corrective Action Plan

Finding Number: 3

Page Reference: 4

Finding: Financial Status Report (FSR) Errors

The Health Department's reported FSR amounts for several revenue and expenditure line items did not agree with the general ledger amounts, and reported FSR amounts for space cost and County/City Central Services did not agree with supporting documentation.

Recommendation: Adopt policies and procedures to ensure that all revenues and expenditures are accurately reported on the FSRs and reported costs agree with supporting documentation.

Comments: FY 2011 was not cumulative FSRs but each quarter stood alone which was problematic for correcting errors. Timing issues demand using preliminary year end reports. County cost allocation report is not available until at least three months into the fiscal year.

Corrective Action: The Health Department will write a departmental procedure to incorporate any changes between preliminary and final year end reports into quarterly FSR reporting, and a procedure for amending state budgets for any changes necessitated because of timing on the availability of the cost allocation report.

**Anticipated
Completion Date:** December 15, 2012

MDCH Response: None

Comments and Recommendations

1. County Central Service Cost Allocated Based On Budgeted FTEs

The Health Department is required to comply with OMB Circular A-87. According to OMB Circular A-87, indirect cost pools must be distributed to benefitted cost objectives on bases that will produce an equitable result in consideration of relative benefits derived (Appendix A, Section F.). The Health Department expenses the county central service cost to programs based on budgeted FTE's. Distributions based on budget may not result in an equitable result in consideration of relative benefits derived. We recommend the Health Department implement policies and procedures to ensure that costs are distributed on bases that will produce an equitable result in consideration of relative benefits derived such as actual costs or actual FTEs.

Management's Response:

Departmental procedure will be written for distributing county central service cost based on actual FTEs, to be computed cumulatively each quarter.