

# Audit Report

Ottawa County Health Department  
Family Planning Program

October 1, 2011 – September 30, 2012



Office of Audit  
Quality Assurance and Review  
October 2013



RICK SNYDER  
GOVERNOR

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

JAMES K. HAVEMAN  
DIRECTOR

October 23, 2013

Lisa Stefanovsky, M.Ed., Health Officer  
Ottawa County Health Department  
12251 James Street  
Holland, Michigan 49424

Dear Ms. Stefanovsky:

Enclosed is our final report from the Michigan Department of Community Health (MDCH) audit of the Ottawa County Health Department Family Planning Program for the period October 1, 2011 through September 30, 2012.

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; 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, and the Office of Audit's response to those comments where necessary.

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 Ottawa County Health Department (Health Department) is governed under the Public Health Code, Act 368 of 1978. The Health Department is a component unit of Ottawa County, which is the reporting entity, and the administrative office is located in Holland, Michigan. The Health Department operates under the legal supervision and control of the Board of Health, which is comprised of commissioners of Ottawa County. The Health Department provides community health program services to the residents Ottawa County. These service programs include: Food Service Sanitation, Communicable Disease Control, Sexually Transmitted Disease Control, Medicaid Outreach, Immunization, Family Planning, Bioterrorism Preparedness, Vision Screening, Hearing Screening, On-Site Sewage, Drinking Water, and Maternal Infant Health.

## **FUNDING METHODOLOGY**

The Health Department services are funded from local appropriations, fees and collections, and grant programs. The Michigan Department of Community Health (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 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 on 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, 2011 to September 30, 2012. Our review procedures included the following:

- Reviewed the most recent Health Department Single Audit report for any Family Planning Program concerns.
- Reviewed the completed the 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 generally effective in establishing and implementing internal controls over the Family Planning Program. However, we noted a repeat exception with billing rates (Finding 1).

#### **Finding**

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

The Health Department used billing rates for family planning services and supplies that 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 noted in the last two MDCH audits (FYE 2008 and FYE 2010).

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 cost of \$1,246,124 we found the rates used would not recover \$464,825 of the cost (see Schedule of Costs vs. Amounts Billed for Services and Supplies).

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 estimated effect is that an amount potentially recoverable from clients was paid from local revenues. Because the amount recoverable from all clients was \$34,804 and billing rates were 37.3% below cost, we can estimate the effect was approximately \$20,706 for the year.

According to the Health Department's response to the FYE 2010 MDCH Audit Report, the Health Department's policy is to complete a cost study of the fees every three years, and the next cost study and fee increase was slated for July 2013. In MDCH's response to the Health Department's response (contained on page 7 of the FYE 2010 MDCH Audit Report), MDCH suggested that timelier action was needed. However, it appears no further action was taken as the rates primarily remained unchanged.

### **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 as documented in a recent 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 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, we noted exceptions with salary allocations (Finding 2).

### Finding

#### **2. Salary Allocation Deficiencies**

The Health Department allocated one employee's salary cost to the Family Planning Program based on a predetermined percentage in violation of Federal cost principles, and did not report all allocable salary expense for one employee based on the hours shown on the time sheet.

OMB Circular A-87, Appendix B, Section 8. h. (4) states:

- (4) Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation which meets the standards in subsection 8. h. (5) of this appendix...*
- (5) 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.*

The Health Department established a percentage allocation for one employee working in the Family Planning Program at the beginning of the year and this percentage was used throughout the year to charge salaries to the Family Planning Program. The employee did not complete personnel activity reports or equivalent documentation to adjust the budgeted distributions to actual as required. Additionally, for one employee working multiple programs, we noted during two consecutive pay periods that the time charged to the Family Planning Program did not agree with time spent on the Family Planning Program according to the time sheet.

## **Recommendation**

We recommend that the Health Department adopt policies and procedures to ensure that the distributions of salary costs agree with personnel activity reports or equivalent documentation in compliance with OMB Circular A-87 requirements.

## **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, 2012 is \$168,504. 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.

**Ottawa County Health Department  
Family Planning Program  
Statement of MDCH Grant Program Revenues and Expenditures  
10/1/11 - 9/30/12**

	<b>BUDGETED</b>	<b>REPORTED</b>	<b>AUDIT ADJUSTMENT</b>	<b>ALLOWABLE</b>
<b>REVENUES:</b>				
MDCH Grant	\$168,504	\$168,504 <sup>1</sup>	\$0	\$168,504
Fees 1st & 2nd Party	\$47,600	\$34,804	\$0	\$34,804
Fees & Collections - 3rd Party	\$240,000	\$306,053	\$0	\$306,053
Local Non-ELPHS	\$1,449	\$1,449	\$0	\$1,449
Local MCH	\$37,133	\$37,133	\$0	\$37,133
Local Funding	\$870,231	\$698,181	\$0	\$698,181
<b>TOTAL REVENUES</b>	<b>\$1,364,917</b>	<b>\$1,246,124</b>	<b>\$0</b>	<b>\$1,246,124</b>
<b>EXPENDITURES:</b>				
Salary & Wages	\$408,024	\$426,687	\$0	\$426,687
Fringe Benefits	\$139,985	\$112,284	\$0	\$112,284
Supplies	\$153,355	\$118,947	\$0	\$118,947
Travel	\$6,731	\$4,901	\$0	\$4,901
Communications	\$10,486	\$6,808	\$0	\$6,808
Space Cost	\$56,453	\$39,697	\$0	\$39,697
Other Expense	\$25,035	\$13,286	\$0	\$13,286
Indirect Charges	\$219,116	\$216,434	\$0	\$216,434
Support Staff	\$345,732	\$307,080	\$0	\$307,080
<b>TOTAL EXPENDITURES</b>	<b>\$1,364,917</b>	<b>\$1,246,124</b>	<b>\$0</b>	<b>\$1,246,124</b>

<sup>1</sup> Actual MDCH payments provided on a performance reimbursement basis.

**Ottawa County Health Department  
Family Planning  
Cost vs. Amounts Billed for Services and Supplies Schedule  
10/1/11 – 9/30/12**

<u>Procedure</u>	<u>Total Quantity</u>	<u>Price</u>	<u>Total</u>
Office Visit 1 & 2 New & Est	3210	\$30.00	\$96,300.00
Office Visit 3 New & Est	375	\$50.00	\$18,750.00
Office Visit Est 12-17	59	\$130.00	\$7,670.00
Office Visit Est 18-39	1015	\$130.00	\$131,950.00
Office Visit Est 40-64	67	\$140.00	\$9,380.00
Office Visit New 12-17	103	\$150.00	\$15,450.00
Office Visit New 18-39	312	\$150.00	\$46,800.00
Office Visit New 40-64	7	\$170.00	\$1,190.00
Medical Revisit	325	\$50.00	\$16,250.00
Urine Preg Test	320	\$10.00	\$3,200.00
Chlamydia	839	\$40.00	\$33,560.00
Wet Mount	227	\$10.00	\$2,270.00
Hemoglobin	127	\$10.00	\$1,270.00
Urinalysis	38	\$10.00	\$380.00
Chlamydia & Gonnerra	28	\$78.00	\$2,184.00
Yeast	86	\$15.00	\$1,290.00
Pap Smear	800	\$35.00	\$28,000.00
Depo	1612	\$40.00	\$64,480.00
Oral Contraceptives	10227	\$20.00	\$204,540.00
Removal IUD	35	\$100.00	\$3,500.00
Insert IUD	40	\$120.00	\$4,800.00
IUD Mirena	21	\$675.00	\$14,175.00
IUD Paragar	6	\$250.00	\$1,500.00
Nuva Ring	994	\$40.00	\$39,760.00
Plan B	106	\$25.00	\$2,650.00
Pills by Mail	189	\$5.00	\$945.00
Foam	9	\$15.00	\$135.00
Patch	723	\$40.00	\$28,920.00
			\$781,299.00
Total Expenses			\$1,246,124.00
(Shortfall)/Excess			(\$464,825.00)

## Corrective Action Plan

**Finding Number:** 1

**Page Reference:** 2

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

The Health Department used billing rates for family planning services and supplies that 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 noted in the last two MDCH audits (FYE 2008 and FYE 2010).

**Recommendation:** Comply with the Title X regulations by increasing billing rates to an amount that is sufficient to recover the reasonable cost of services as documented in a recent 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 Health Department's current policy is to do a cost study of the fees every three years. The collection of fees from private pay clients have decreased in the past few years due to the challenging economic conditions.

**Corrective Action:** In August 2013 a cost study was completed based on final program costs and services for FYE 09/30/2012. After reviewing the cost study analysis, we will determine if a new cost structure should be brought before the Board of Directors.

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

**MDCH Response:** None

## Corrective Action Plan

**Finding Number:** 2

**Page Reference:** 4

**Finding:** Salary Allocation Deficiencies

The Health Department allocated one employee's salary cost to the Family Planning Program based on a predetermined percentage in violation of Federal cost principles, and did not report all allocable salary expense for one employee based on the hours shown on the time sheet.

**Recommendation:** Adopt policies and procedures to ensure that the distributions of salary costs agree with personnel activity reports or equivalent documentation in compliance with OMB Circular A-87 requirements.

**Comments:** The employee whose time was allocated to Family Planning on a predetermined percentage is the Clinical Health Service Manager who oversees Family Planning 25%, Clerical 25%, Immunization Clinic 25%, AIDS/STD 12% and Communicable Disease 13%. One supervisor from each of these areas directly reports to the Clinical Service Health Manager.

The employee who did not report all allocable salary expense based on the hours on the time sheet had not entered the time into our time and effort module.

**Corrective Action:** The method for updating the manager's personnel allocations followed in fiscal year 2011-12 will be changed for fiscal year 2013-14. A new process will be implemented to have one Fiscal Service staff responsible for updating the management personnel allocation based on actual number of direct reports quarterly and notifying payroll of changes as necessary.

For the employee who had discrepancy of hours, we are working with the supervisor to ensure that the proper hours are reported correctly within our time and effort module within Insight in a timely manner.

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

**MDCH Response:** None