

Audit Report

Tuscola County Health Department
Family Planning and WIC Programs

October 1, 2012 – September 30, 2013



Office of Audit
Quality Assurance and Review
April 2014



RICK SNYDER
GOVERNOR

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

JAMES K. HAVEMAN
DIRECTOR

April 15, 2014

Gretchen Tenbusch, R.N., M.S.A., Health Officer
Tuscola County Health Department
1309 Cleaver Road
Caro, MI 48723-8114

Dear Ms. Tenbusch:

Enclosed is our final report from the Michigan Department of Community Health (MDCH) audit of the WIC and Family Planning 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; and Corrective Action Plans. The conclusions and findings 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.

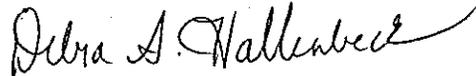
Due to the Finding #2 adjustments, MDCH's obligation for the WIC program declined \$3,059 and these funds are due back to MDCH. A check payable to the State of Michigan for \$3,059 should be sent to the following address by **May 15, 2014**:

Lisa Halverson, Manager
Revenue Operations Section
Accounting Division
Michigan Department of Community Health
P.O. Box 30437
Lansing, MI 48909

Gretchen Tenbusch, R.N., M.S.A., Health Officer
Tuscola County Health Department
April 15, 2014
Page 2

Thank you for the cooperation extended throughout this audit process.

Sincerely,



Debra S. Hallenbeck, Manager
Quality Assurance and Review
Office of Audit

Enclosure

cc: Pam Myers, Director, Office of Audit
Stan Bien, Director, WIC Program
Paulette Dobynes Dunbar, Manager, Division of Family and Community Health
Jeanette Lightning, Manager, Reproductive Health Unit
Lisa Halverson, Manager, Revenue Operations Section
Mike Gribbin, Senior Auditor, Office of Audit
Steve Utter, Financial Analyst, Division of Family and Community Health

TABLE OF CONTENTS

	Page
Description of Agency	1
Funding Methodology.....	1
Purpose and Objectives.....	1
Scope and Methodology	2
<u>Conclusions, Findings, and Recommendations</u>	
<u>Internal Controls</u>	2
1. Family Planning Billing Rates Not Sufficient to Recover Cost (Repeat).....	3
<u>Financial Reporting</u>	4
2. Indirect Cost Allocation Overstated.....	4
3. Nursing Administrator Costs Allocated Based On Predetermined FTE's.....	5
<u>MDCH Shares of Cost and Balance Due</u>	5
Statement of MDCH Grant Program Revenues and Expenditures - WIC Program.....	6
Statement of MDCH Grant Program Revenues and Expenditures - WIC Breastfeeding Program.....	7
Statement of MDCH Grant Program Revenues and Expenditures - Family Planning Program	8
Cost vs. Amounts Billed for Supplies and Services Schedule – Family Planning	9
Corrective Action Plans	10

DESCRIPTION OF AGENCY

The Tuscola 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 Tuscola County, which is the reporting entity, and the administrative office is located in Caro, Michigan. The Health Department operates under the legal supervision and control of the Board of Health, which is comprised of two commissioners of Tuscola County and three community members. The Health Department provides community health program services to the residents of Tuscola County. 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, Women Infant and Children Supplemental Food Program (WIC), 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 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, 2012 to September 30, 2013. Our review procedures included the following:

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

Conclusion: The Health Department was effective in establishing and implementing internal controls over the Family Planning and WIC Programs. 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 our FYE 2011 audit.

Finding

1. Family Planning 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% 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 reported cost of \$214,662 we found the rates used would not recover \$102,814 of the cost (see Cost vs. Amounts Billed for Supplies and Services Schedule).

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 a small amount potentially recoverable from clients was paid from local revenues. Because the amount recovered from all clients was \$3,686 and billing rates were about 47.90% under cost, we can estimate the effect was approximately \$3,388 for the year.

This issue was cited in the FYE 2011 audit whereby we determined that billing rates were about 14% under cost. The Health Department's response was that they will review billing rates and adjust annually based on the most recent cost study and comparison to other providers. We saw that a cost analysis was performed, but one possible reason why fees are too low is that the cost analysis does not factor in all program costs. Only supplies and salaries are factored in, but overhead costs such as space and indirect are not factored in.

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.

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, exceptions were noted with the administration cost allocation (Finding 2) and the nursing supervision allocation (Finding 3).

Finding

2. Indirect Cost Allocation Overstated

The Health Department overstated their indirect cost pool resulting in an overstatement of costs.

The Health Department allocates General Administrative Costs consisting of three cost centers (Agency Support, Health Officer, and Medical Director) to all of the programs based on salaries and fringes. An administrative overhead allocation of \$23,980 was added to the Health Officer cost center without an offsetting deduction from the General Administrative Cost pool. As a result, the Health Department is allocating the entire General Administrative Cost pool and an additional \$23,980 of expenses to all of the programs.

The Health Department’s contract with MDCH (Part II, Section III, Part A.) requires compliance with OMB Circular A-87 (located at 2 CFR Part 225). As defined by OMB Circular A-87, an “indirect cost pool” is the accumulated costs that jointly benefit two or more programs or other cost objectives. Furthermore, indirect cost pools must be distributed to benefitted cost objectives on bases that will produce an equitable result. For costs to be allowable under Federal awards, costs must be adequately documented (Appendix A, Section C. 1. j.). The \$23,980 in added costs is not adequately supported.

We recalculated the General Administrative Cost allocation. We noted the following overstatements: WIC (\$2,801), WIC Breastfeeding (\$428), and Family Planning (\$1,986). Adjustments 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 that the indirect cost allocation is computed properly.

Finding

3. Nursing Administrator Costs Allocated Based On Predetermined FTEs

The Health Department allocates Nursing Administrator costs to programs based on the percent of predetermined FTEs of the programs receiving the allocation rather than actual costs.

The Health Department allocates Nursing Administrator costs to all programs with clinic related activities. The Health Department allocates these expenses based on a percentage of predetermined FTEs of the programs who have nursing related expenses. These expenses need to be allocated in accordance with the relative benefits received as required by OMB Circular A-87.

Per OMB Circular A-87, Appendix A, General Principles for Determining Allowable Costs, Section C. 3. Allocable Costs, “*A cost is allocable to a particular cost objective if the goods or services involved are chargeable or assignable to such cost objective in accordance with relative benefits received.*”

The Health Department can use predetermined FTEs as a distribution base on an interim basis. At year end, however, an adjustment should be made to adjust the allocation to actual activity to ensure costs are allocated in accordance with the relative benefits received. In our review of the 4th quarter allocation, in comparison to an allocation based on actual activity, we found misstatements of approximately \$200 for each program. Since the variances for one quarter are minor, we will not make a financial adjustment. However, the methodology currently used could result in a material difference. Accordingly, the methodology should be changed to ensure costs are allocated in accordance with the relative benefits received.

Recommendation

We recommend that the Health Department adopt policies and procedures to ensure the Nursing Administrator expenses are allocated according to the relative benefits received as required by OMB Circular A-87.

MDCH SHARES OF COST AND BALANCE DUE

Objective 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.

Conclusion: The MDCH obligation under the Family Planning, WIC, and WIC Breastfeeding Programs for fiscal year ended September 30, 2013 is \$115,802, \$260,535, and \$41,087 respectively. The attached Statements of MDCH Grant Program Revenues and Expenditures show the budgeted, reported, and allowable costs. The audit made one adjustment affecting WIC funding (\$2,728) and WIC Breastfeeding funding (\$331). The Health Department owes a total of \$3,059 back to MDCH.

**Tuscola County Health Department
WIC Supplemental Food Program
Statement of MDCH Grant Program Revenues and Expenditures
10/1/12 - 9/30/13**

	BUDGETED	REPORTED	AUDIT ADJUSTMENT	ALLOWABLE
REVENUES:				
MDCH Grant	\$263,263	\$263,263 ¹	(\$2,728)	\$260,535
Local Funds Other	\$0	\$73	(\$73)	\$0
TOTAL REVENUES	\$263,263	\$263,336	(\$2,801)	\$260,535
EXPENDITURES:				
Salary and Wages	\$135,708	\$131,722	\$0	\$131,722
Fringe Benefits	\$60,860	\$58,824	\$0	\$58,824
Supplies	\$1,600	\$3,001	\$0	\$3,001
Travel	\$595	\$95	\$0	\$95
Communications	\$1,025	\$1,004	\$0	\$1,004
Central Service Cost	\$2,072	\$1,891	\$0	\$1,891
Space Cost	\$8,028	\$8,386	\$0	\$8,386
Other Expense	\$5,313	\$4,520	\$0	\$4,520
Indirect Cost	\$39,773	\$34,007	(\$2,801) ²	\$31,206
Nursing Administration	\$8,289	\$19,886	\$0	\$19,886
TOTAL EXPENDITURES	\$263,263	\$263,336	(\$2,801)	\$260,535

¹ Actual MDCH payments provided on a performance reimbursement basis

² Overstated Indirect Costs (Finding #2)

**Tuscola County Health Department
WIC Breastfeeding/Peer Counselor Program
Statement of MDCH Grant Program Revenues and Expenditures
10/1/12 - 9/30/13**

	BUDGETED	REPORTED	AUDIT ADJUSTMENT	ALLOWABLE
REVENUES:				
MDCH Grant	\$41,418	\$41,418 ¹	(\$331)	\$41,087
Local Funds Other	\$0	\$97	(\$97)	\$0
TOTAL REVENUES	\$41,418	\$41,515	(\$428)	\$41,087
EXPENDITURES:				
Salary and Wages	\$14,271	\$16,633	\$0	\$16,633
Fringe Benefits	\$14,811	\$12,486	\$0	\$12,486
Supplies	\$860	\$1,462	\$0	\$1,462
Travel	\$0	\$143	\$0	\$143
Communications	\$110	\$229	\$0	\$229
Central Service Cost	\$217	\$218	\$0	\$218
Space Cost	\$1,320	\$611	\$0	\$611
Other Expense	\$368	\$825	\$0	\$825
Indirect Cost	\$5,884	\$5,197	(\$428) ²	\$4,769
Nursing Administration	\$3,577	\$3,711	\$0	\$3,711
TOTAL EXPENDITURES	\$41,418	\$41,515	(\$428)	\$41,087

- ¹ Actual MDCH payments provided on a performance reimbursement basis
² Overstated Indirect Costs (Finding #2)

**Tuscola County 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	\$73,935	\$73,935 ¹	\$0	\$73,935
Fees 1 st & 2 nd Party	\$3,642	\$3,686	\$0	\$3,686
Fees & Collections – 3 rd Party	\$65,232	\$63,440	\$0	\$63,440
Fed Cost Based Reimbursement	\$33,243	\$28,561	\$0	\$28,561
MCH Funding	\$41,867	\$41,867	\$0	\$41,867
Required Match - Local	\$3,694	\$3,173	(\$1,986)	\$1,187
TOTAL REVENUES	\$221,613	\$214,662	(\$1,986)	\$212,676
EXPENDITURES:				
Salary & Wages	\$91,109	\$89,840	\$0	\$89,840
Fringe Benefits	\$46,053	\$45,221	\$0	\$45,221
Supplies	\$19,204	\$17,409	\$0	\$17,409
Travel	\$134	\$612	\$0	\$612
Communications	\$700	\$707	\$0	\$707
County Central Services	\$1,154	\$1,293	\$0	\$1,293
Space Cost	\$9,347	\$9,347	\$0	\$9,347
Other Expense	\$15,174	\$14,510	\$0	\$14,510
Admin Overhead	\$26,873	\$24,105	(\$1,986) ²	\$22,119
Nursing Allocation	\$11,865	\$11,618	\$0	\$11,618
TOTAL EXPENDITURES	\$221,613	\$214,662	(\$1,986)	\$212,676

¹ Actual MDCH payments provided on a performance reimbursement basis.

² Overstated Indirect Costs (Finding #2).

**Tuscola County Health Department
Family Planning
Cost vs Amount Billed for Supplies and Services Schedule
10/1/12 – 9/30/13**

Procedure	Description	Number of Encounters	Standard Fee	Total Amount Collected
81025	Pregnancy Test	131	15.00	1,965.00
86631	Chlamydia - No charge	172	-	-
86631a	Chlamydia - Charge	8	38.54	308.32
87850	GC- No Charge	6	-	-
99201 FP	OV FP Initial Problem Focused	5	40.00	200.00
99202 FP	OV FP Initial Expanded Problem	4	60.00	240.00
99211 FP	OV FP A Nursing Intervention	710	25.00	17,750.00
99212 FP	OV FP Est Problem Focused	22	40.00	880.00
99213 FP	OV FP Expanded Problem Focused	1	60.00	60.00
99384 FP	OV FP Initial Exam (ages 12-17)	53	150.00	7,950.00
99385 FP	OV FP Initial Exam (ages 18-39)	98	150.00	14,700.00
99394 FP	OV FP Est Exam (ages 12-17)	19	120.00	2,280.00
99395 FP	OV FP Est Exam (ages 18-39)	265	125.00	33,125.00
A4267	Male Condom	303	0.35	106.05
A4268	Female Condom	1	2.00	2.00
A4269	Spermicide	1	10.00	10.00
Flagyl 14 tab	Metronidazole 14 tabs	2	10.00	20.00
Hgb/HCT	Hgb/HCT FP	1	10.00	10.00
J1055	Depo Provera vials	492	45.00	22,140.00
J1055a	Depo Provera prefilled syringe	1	45.00	45.00
J7303 PV	Nuva Ring PV	66	15.00	990.00
J7304	Ortho Evra Patch	6	25.00	150.00
Pap Anl	Pap Anl \$0 charge	38	-	-
Pap Int	Pap Initial \$0 charge	72	-	-
Q0144	Zithromax 1 gm	2	16.00	32.00
Rpt Pap	Pap Repeat \$0 charge	23	-	-
S4993	Micronor Nor Qd	2	20.00	40.00
S4993a	Lutera	115	20.00	2,300.00
S4993b	Ortho Novum 777	8	20.00	160.00
S4993c	Ortho Cyclen	69	20.00	1,380.00
				\$111,848.37
	Total Reported Expenses			\$214,661.63
	(Shortfall)/Excess			(\$102,813.26)

Corrective Action Plan

Finding Number: 1

Page Reference: 3

Finding: Family Planning 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% 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.

Comments: The Health Department agrees with this finding.

Corrective Action: To comply with Title X regulations, billing rates have been reviewed and adjusted.

**Anticipated
Completion Date:** March 24, 2014

MDCH Response: None

Corrective Action Plan

Finding Number: 2

Page Reference: 4

Finding: Indirect Cost Allocation Overstated

The Health Department overstated their indirect cost pool resulting in an overstatement of costs.

Recommendation: Adopt policies and procedures to ensure that the indirect cost allocation is computed properly.

Comments: The Health Department agrees with this finding.

Corrective Action: Agency indirect will be calculated to include expense in cost centers 101-Agency Support and 102-Health Officer. The Fiscal Manager will assure the calculation of Agency Support includes a decrease for any allocation of Agency Support to the 102-Health Officer cost center as to avoid an overstatement of indirect costs. The distribution of indirect will be based on a percentage of salary and fringe year-to-date. The department will distribute expense in cost center 107-Medical Director as a separate allocation based on a percentage of salary year-to-date.

Anticipated

Completion Date: March 31, 2014

MDCH Response: None

Corrective Action Plan

Finding Number: 3

Page Reference: 5

Finding: Nursing Administrator Costs Allocated Based On Predetermined FTEs

The Health Department allocates Nursing Administrator costs to programs based on the percent of predetermined FTEs of the programs receiving the allocation rather than actual costs.

Recommendation: Adopt policies and procedures to ensure the Nursing Administrator expenses are allocated according to the relative benefits received as required by OMB Circular A-87.

Comments: The Health Department agrees with this finding.

Corrective Action: The worksheet used to calculate the spread of Nursing Administration expense has been adjusted. FTEs are no longer part of the calculation, but rather the percent of salaries year-to-date will be used to determine the cost spread to all programs with clinic related activities on a quarterly basis.

**Anticipated
Completion Date:** March 24, 2014

MDCH Response: None