

Audit Report

Van Buren / Cass County District Health Department
Family Planning Program

October 1, 2010 – September 30, 2011



Office of Audit
Quality Assurance and Review
March 2013



RICK SNYDER
GOVERNOR

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

JAMES K. HAVEMAN
DIRECTOR

March 11, 2013

Jeffery Elliot, Heath Officer/Administrator
Van Buren / Cass County District Health Department
57418 CR 681, Suite A
Hartford, Michigan 49057

Dear Mr. Elliot:

Enclosed is our final report from the Michigan Department of Community Health (MDCH) audit of the Van Buren / Cass County District 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 Schedule; 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.

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

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. Billing Rates Not Sufficient to Recover Cost (Repeat)	2
<u>Financial Reporting</u>	4
2. Unallowable Salaries and Fringe Benefits Allocation.....	4
3. Improper Space Cost Allocations	5
<u>MDCH Share of Costs and Balance Due</u>	6
Statement of MDCH Grant Program Revenues and Expenditures	7
Cost vs. Amounts Billed for Supplies and Services Schedule.....	8
Corrective Action Plans	9

DESCRIPTION OF AGENCY

The Van Buren / Cass County District Health Department (Health Department) is governed under the Public Health Code, Act 368 of 1978. The Health Department is a component unit of Van Buren County, which is the reporting entity, and the administrative office is located in Hartford, Michigan. The Health Department operates under the legal supervision and control of the Board of Health, which is comprised of commissioners of Van Buren and Cass Counties. The Health Department provides community health program services to the residents of Van Buren and Cass Counties. These services include: Food Service Sanitation, On-Site Sewage Disposal, Safe Drinking Water, Immunizations, Sexually Transmitted Disease Control, General Communicable Disease Control, Breast and Cervical Cancer Control Prevention Coordination, Family Planning, Bioterrorism Preparedness and Medicaid Outreach.

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 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 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, 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 (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/lease 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).

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% 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 cost of \$270,591 we found the rates used would not recover \$130,309 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 can not 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. Since the amount recovered from all clients was \$6,495, and billing rates were 48% under cost, we can estimate the effect was \$6,033 for the year.

This issue was cited in the FYE 2009 Audit Report. At that time, billing rates were 63% under cost. Management's response was that increasing billing rates would result in an overstated accounts receivable and increase bad debt write-offs. No action was taken as rates remained unchanged from the FYE 2009 audit. As we previously stated, to ensure compliance with Title X regulations, the schedule of fees must be designed to at least *attempt* to recover the reasonable cost of providing services. The fee schedule should be evaluated annually in relation to cost and adjusted to maximize potential collections, especially third party collections. A periodic review of accounts receivable should be performed including the write off of bad debts to prevent an overstated accounts receivable.

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. However, we noted exceptions with salary and fringe benefit allocations (Finding 2), and space cost allocations (Finding 3).

Finding

2. Unallowable Salaries and Fringe Benefits Allocation

The Health Department allocates salary and fringe benefit costs to the Family Planning Program based on a predetermined percentage in violation of Federal cost principles.

The Health Department establishes a percentage allocation for each employee working in the Family Planning Program at the beginning of the year and this percentage is used throughout the year to charge salaries and fringe benefits to the Family Planning Program.

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.*

OMB Circular A-87, Appendix B, Section 8. d. (5) states, in pertinent part:

The cost of fringe benefits...shall be allocated to Federal awards and all other activities in a manner consistent with the pattern of benefits attributable to the individuals or group(s) of employees whose salaries and wages are chargeable to such Federal awards and other activities.

Recommendation

We recommend that the Health Department adopt policies and procedures to ensure that the distribution of salary and fringe benefit costs are in compliance with OMB Circular A-87 requirements.

Finding

3. Improper Space Cost Allocations

The Health Department reported building depreciation and maintenance costs based on outdated allocation percentages, and actual maintenance costs from seven years prior.

In order for a cost to be allowable under Federal awards, it must be necessary and reasonable, properly allocated, and adequately documented. OMB Circular A-87 (located at 2 CFR Part 225), Appendix A, Section C. states:

1. *Factors affecting allowability of costs. To be allowable under Federal awards, costs must meet the following general criteria:*
 - a. *Be necessary and reasonable for proper and efficient performance and administration of Federal awards.*
 - b. *Be allocable...*
 - j. *Be adequately documented...*
3. *Allocable costs.*
 - a. *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.*
 - b. *All activities which benefit from the governmental unit's indirect cost...will receive an appropriate allocation of indirect costs.*

The reported cost for the Hartford building consisted of three components: depreciation for the original building, depreciation for a renovation, and grounds cost. The amount of depreciation for the original building was allocated to the Health Department based on the Health Department's occupancy from 1974, which was 45%. The amount of depreciation for the renovation was allocated to the Health Department based on the Health Department's occupancy from 1992, which was 31%. The amount of grounds cost was allocated to the Health Department based 2004 costs and on the Health Department's occupancy from 2001, which was 40%.

Occupancy for the Health Department has obviously changed over the years. Allocating costs based on occupancy from over 30 years ago will not ensure all activities receive their appropriate share of costs. Occupancy should be evaluated annually and costs allocated to benefitting cost objectives accordingly.

Grounds cost must be necessary, reasonable and adequately documented to be allowable. Costs from seven years prior do not represent necessary, reasonable and adequately

documented costs for the current period. While estimations may be used throughout the year, a distribution of actual costs to benefitting cost objectives at year end is necessary.

Adjustments will not be made as we do not have the information necessary to make the proper allocations, and reported costs appear reasonable. Furthermore, any adjustment (up or down) would have no impact on MDCH funding.

Recommendation

We recommend that the Health Department adopt policies and procedures that will ensure space cost is properly allocated and documented in accordance with OMB Circular A-87.

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 \$102,992. 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.

Van Buren – Cass District 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	\$102,992	\$102,992 ¹	\$0	\$102,992
Fees 1 st & 2 nd Party	\$5,400	\$6,495	\$0	\$6,495
Fees & Collections – 3 rd Party	\$40,100	\$31,147	\$0	\$31,147
Other Contributions	\$0	\$2,680	\$0	\$2,680
Misc. Income	\$0	\$0	\$139 ²	\$139
MCH Funding	\$46,357	\$46,357	\$0	\$46,357
Local Funds	\$146,311	\$80,882	(\$101) ²	\$80,781
TOTAL REVENUES	\$343,840	\$270,553	\$38	\$270,591
EXPENDITURES:				
Salary & Wages	\$159,550	\$132,681	\$0	\$132,681
Fringe Benefits	\$51,057	\$48,306	\$0	\$48,306
Supplies	\$30,000	\$16,609	\$0	\$16,609
Travel	\$6,500	\$3,479	\$0	\$3,479
Communications	\$9,000	\$4,438	(\$545) ²	\$3,893
Space Cost	\$28,500	\$18,766	\$0	\$18,766
Other Expenses	\$15,000	\$11,449	\$583 ²	\$12,032
Admin. Overhead	\$41,553	\$34,825	\$0	\$34,825
TOTAL EXPENDITURES	\$341,160	\$270,553	\$38	\$270,591

- ¹ Actual MDCH payments provided on a performance reimbursement basis.
² Reconciling differences with general ledger.

**Van Buren – Cass County District Health Department
Family Planning
Cost vs. Amounts Billed for Supplies and Services Schedule
10/1/10 – 9/30/11**

<u>Procedure</u>	<u>Total Quantity</u>	<u>Price</u>	<u>Total</u>
Initial Exam 12-17	1	\$115.00	\$115.00
Initial Exam 18-39	31	\$115.00	\$3,565.00
Initial Exam 40-64	31	\$135.00	\$4,185.00
Established Exam 12-17	17	\$92.00	\$1,564.00
Established Exam 18-30	275	\$92.00	\$25,300.00
Established Exam 40-64	92	\$103.00	\$9,476.00
E & M New	10	\$40.00	\$400.00
E & M New	10	\$60.00	\$600.00
E & M New	37	\$100.00	\$3,700.00
E & M New	99	\$135.00	\$13,365.00
Revisit Refill	347	\$25.00	\$8,675.00
Revisit Depo/Supply	35	\$30.00	\$1,050.00
Med Revisit General	363	\$65.00	\$23,595.00
Injection Only	66	\$12.00	\$792.00
IUD Insert	5	\$64.00	\$320.00
IUD Removal	8	\$68.00	\$544.00
Hemoglobin	85	\$7.00	\$595.00
Pap	427	\$12.00	\$5,124.00
UCG	197	\$9.00	\$1,773.00
Pregnancy	412	\$8.00	\$3,296.00
Urinalysis	40	\$6.00	\$240.00
Terazol Cream	12	\$18.00	\$216.00
Cleocin Cream	23	\$28.00	\$644.00
Monistat	6	\$15.00	\$90.00
TCA Application	23	\$5.00	\$115.00
Ampicillin	2	\$7.00	\$14.00
Bactrim 14	8	\$8.00	\$64.00
Bactrim 6	6	\$7.00	\$42.00
Ferrous Sulfate	6	\$5.00	\$30.00
Metronidazole 14	10	\$8.00	\$80.00
Metronidazole 4	9	\$5.00	\$45.00
Prenatal Vitamins	40	\$5.00	\$200.00
Oral Contraceptives	1552	\$15.00	\$23,280.00
Depo Provera	119	\$30.00	\$3,570.00
Plan B	38	\$10.00	\$380.00
OrthoEvra	5	\$18.00	\$90.00
Female Condom	6	\$3.00	\$18.00
Male Condom dozen	405	\$3.00	\$1,215.00
Gel	25	\$8.00	\$200.00
Nuva Ring 3 pack	5	\$84.00	\$420.00
Paragard	5	\$259.00	\$1,295.00
			\$140,282.00
Total Expenses			\$270,591.00
(Shortfall)/Excess			(\$130,309.00)

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% 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: None

Corrective Action: The Health Department will implement new rates on April 1st along with the new DHHS Poverty Guidelines. The Finance Administrator will perform a cost analysis every October based on current personnel and supply costs.

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

MDCH Response: None

Corrective Action Plan

Finding Number: 2

Page Reference: 4

Finding: Unallowable Salaries and Fringe Benefits Allocation

The Health Department allocates salary and fringe benefit costs to the Family Planning Program based on a predetermined percentage in violation of Federal cost principles.

Recommendation: Adopt policies and procedures to ensure that the distribution of salary and fringe benefit costs are in compliance with OMB Circular A-87 requirements.

Comments: None

Corrective Action: The Health Department developed activity logs for time reporting. These will be compared to the budget quarterly and charges will be adjusted to actual.

**Anticipated
Completion Date:** November 2012

MDCH Response: None

Corrective Action Plan

Finding Number: 3

Page Reference: 5

Finding: Improper Space Cost Allocations

The Health Department reported building depreciation and maintenance costs based on outdated allocation percentages, and actual maintenance costs from seven years prior.

Recommendation: Adopt policies and procedures that will ensure space cost is properly allocated and documented in accordance with OMB Circular A-87.

Comments: None

Corrective Action: The Finance Administrator will obtain building costs from the previous fiscal year from the Van Buren County Administrator in October to calculate yearly costs. Cost distributions will be recalculated based on current fiscal year personnel cost distributions.

**Anticipated
Completion Date:** October 2013

MDCH Response: None