



**RICK SNYDER**  
GOVERNOR

STATE OF MICHIGAN  
DEPARTMENT OF HEALTH & HUMAN SERVICES  
BUREAU OF AUDIT, REIMBURSEMENT AND QUALITY ASSURANCE  
CAPITOL COMMONS CENTER • 400 SOUTH PINE • LANSING, MICHIGAN 48913

**NICK LYON**  
DIRECTOR

February 9, 2018

Fred Yanoski, MPH  
Director/Health Officer  
Midland County Health Department  
220 W. Ellsworth Street  
Midland, Michigan 48640

Dear Mr. Yanoski:

Enclosed is our final report from the Michigan Department of Health and Human Services audit of the Midland County Health Department Family Planning Program for the period October 1, 2015 through September 30, 2016.

The final report contains the following: Description of Agency; Funding Methodology; Purpose and Objectives; Scope and Methodology; Conclusions, Findings, and Recommendations; Statements of Grant Program Revenues and Expenditures; Corrective Action Plans; and Comment and Recommendation. The Corrective Action Plans and Comment and Recommendation include the agency's response to the Preliminary Analysis.

Final reports are posted for public viewing on MDHHS's website at:  
[http://www.michigan.gov/mdhhs/0,5885,7-339-73970\\_43164-151236--,00.html](http://www.michigan.gov/mdhhs/0,5885,7-339-73970_43164-151236--,00.html).

Thank you for the cooperation extended throughout this audit process.

Sincerely,

A handwritten signature in black ink that reads "Shannah M. Havens".

Shannah M Havens, CPA, CISA  
Audit Section Manager  
Population Health and Community Services Section  
Audit Division

Enclosure

cc: Debra Hallenbeck, Director, Audit Division  
Paulette Dobynes Dunbar, Manager, Division of Maternal and Infant Health  
Deanna Charest, Manager, Reproductive and Preconception Health Unit  
Steve Utter, Financial Analyst, Reproductive and Preconception Health Unit  
Bryce Wooton, Auditor, Population Health and Community Services Section  
Matthew Tompkins, Auditor, Population Health and Community Services Section  
Holly Beverly, Accountant, Midland County Health Department

# Audit Report

## Midland County Health Department Family Planning Program

October 1, 2015 – September 30, 2016



Bureau of Audit, Reimbursement, and Quality Assurance

Audit Division

February 2018

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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 Midland County Board of Commissioners. The Health Department provides community health program services to the residents of Midland County.

## **FUNDING METHODOLOGY**

The Health Department services are funded from local appropriations, service fees and collections, and grant programs administered through the Michigan Department of Health and Human Services (MDHHS), which consist of federal and state funds. MDHHS 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 MDHHS Grant Funds, First and Third Party Fees and Collections, Local and Other Revenue. Grant funding from MDHHS for the Family Planning Program is federal funding under federal catalog number 93.217 and 93.994, and is subject to performance requirements. That is, reimbursement from MDHHS is based upon the understanding that a certain level of performance (measured in caseload established by MDHHS) 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 financial reporting, and to determine the MDHHS share of Family Planning Program costs. Following are the specific objectives of the audit:

1. To assess the Health Department's effectiveness in reporting its Family Planning Program financial activity to MDHHS in accordance with applicable MDHHS requirements and agreements, applicable federal standards, and generally accepted accounting principles.
2. To determine the MDHHS share of costs for the Family Planning Program in accordance with applicable MDHHS 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, 2015 to September 30, 2016. Our review procedures included the following:

- Reviewed the most recent Health Department Single Audit report for any Family Planning Program concerns.
- Reviewed the completed Subrecipient 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 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

### FINANCIAL REPORTING

**Objective 1:** To assess the Health Department's effectiveness in reporting its Family Planning Program financial activity to MDHHS in accordance with applicable MDHHS requirements and agreements, applicable federal standards, and generally accepted accounting principles.

**Conclusion:** The Health Department generally reported their Family Planning Program financial activity to MDHHS in accordance with applicable MDHHS requirements and agreements, applicable federal standards, and generally accepted accounting principles. However, we identified the following exceptions: predetermined percentages improperly used to distribute salaries and wages (Finding 1) (repeat), non-compliant wage and fringe distribution (Finding 2), improperly allocated fringe benefits based on budgeted amounts (Finding 3) (repeat), inaccurate financial status reporting (Finding 4) (repeat), and inaccurate recording and inadequate support of fees and collections (Finding 5).

## **Finding**

### **1. Predetermined Percentages Improperly Used to Distribute Salaries and Wages (Repeat)**

The Health Department improperly used predetermined percentages to distribute salaries and wages for certain employees and did not adjust costs to reflect the activity actually performed.

Title 2 CFR 200.430(i) (1) states, "Charges to Federal awards for salaries and wages must be based on records that accurately reflect the work performed. These records must: (i) Be supported by a system of internal control which provides reasonable assurance that the charges are accurate, allowable, and properly allocated...(viii) "Budget estimates (i.e., estimates determined before the services are performed) alone do not qualify as support for charges to Federal awards, but may be used for interim accounting purposes, provided that: (A) The system for establishing the estimates produces reasonable approximations of the activity actually performed; (B) Significant changes in the corresponding work activity are identified and entered into the records in a timely manner..."

During our review, we noted that the Health Department allocates the salaries and wages of its Clinic Services Director and front desk clerical staff based on predetermined allocation percentages. However, there is no process in place to compare the predetermined percentages with actual activity to ensure that salaries and wages are properly allocated to each program.

This is a repeat finding from the 2013 Audit Report in which the Health Department's corrective action plan was to establish a Clinic Administration Service cost center and treat its Clinic Services personnel expenditures as indirect costs with an anticipated implementation date of January 1, 2015. However, the Health Department never implemented its corrective action plan.

## **Recommendation**

We again recommend that the Health Department adopt policies and procedures to properly allocate salaries and wages of its Clinic Services Director and staff based on actual activity to ensure compliance with Federal regulation. If electing to use budgeted allocation percentages, adjust charges to actual costs that are supported by records that accurately reflect the work performed as required. Alternatively, if the clerical staff and Clinic Services Director personnel costs are considered indirect costs, adopt policies and procedures to ensure the distribution is equitable in accordance with relative benefits derived.

## **Finding**

### **2. Non-Compliant Wage and Fringe Benefit Distribution**

The Health Department did not properly allocate its Family Planning Program employees' wages and fringe benefits for employees working on multiple activities.

Title 2 CFR 200.430(i) (1) states, “Charges to Federal awards for salaries and wages must be based on records that accurately reflect the work performed. These records must: (i) Be supported by a system of internal control which provides reasonable assurance that the charges are accurate, allowable, and properly allocated...(vii) support the distribution of the employee’s salary or wages among specific activities or cost objectives if the employee works on more than one Federal award.” It also states in Section 431(b) for fringe benefits specific to leave that, “The cost of fringe benefits in the form of regular compensation paid to employees during periods of authorized absences from the job, such as for annual leave, family-related leave, sick leave, holidays, court leave, military leave, administrative leave, and other similar benefits, are allowable if (2)...The costs are equitably allocated to all related activities, including Federal awards.”

During our review, we noted that the Health Department allocated leave time based on each employee’s work schedule. If an employee is absent, leave time hours are allocated to programs based on the work schedule for the absent time period, instead of properly allocating the leave time to all programs that the employee actually worked. We also noted during our review, that the Health Department inaccurately allocated wages of an employee to the Family Planning Program, however, the employee never recorded any activity to the Program.

### **Recommendation**

We recommend that the Health Department implement policies and procedures to ensure that all salary, wages, and fringe benefit distributions are based on records that accurately reflect the work performed to ensure compliance with Federal regulation.

### **Finding**

#### **3. Improperly Allocated Fringe Benefits Based on Budgeted Amounts (Repeat)**

The Health Department did not properly allocate its employees’ fringe benefits.

Title 2 CFR 200.431(c) Compensation – fringe benefits states, “The cost of fringe benefits in the form of employer contributions or expenses for social security; employee life, health, unemployment, and worker’s compensation insurance; pension plan costs; and other similar benefits are allowable, provided such benefits are granted under established written policies. Such benefits, must 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, and charged as direct or indirect costs in accordance with the non-Federal entity’s accounting practices.”

During our review, we noted that the Health Department allocates its employees’ health insurance and defined benefit contributions to Health Department programs based on an annual budgeted amount calculated by the County. However, the Health Department does not have a process in place to compare the budgeted amounts and the actual amounts to ensure the charged amounts are accurate and equitable.

This is a repeat finding from the 2013 Audit Report in which the Health Department's corrective action plan was to implement, by January 1, 2015, a quarterly analysis to allocate fringes based on actual time spent in each program. However, the Health Department never implemented its corrective action plan.

### **Recommendation**

We again recommend that the Health Department implement policies and procedures to ensure that all fringe benefits are properly allocated based on the benefits received to ensure compliance with Federal regulation.

### **Finding**

#### **4. Inaccurate Financial Status Reporting (Repeat)**

The Health Department did not accurately report expenditures and revenues on its FSR.

MDHHS contract terms state that a Financial Status Report (FSR) must be prepared in accordance with the Department's FSR instructions and to report total actual program expenditures regardless of the source of funds. The FSR instructions also require reporting of the various sources of funds utilized to provide program support, including fees and collections received during the current reporting period.

During our review, we noted that the Health Department under reported supplies and materials, county-city central services, and fees and collections by \$13,074, \$971, and \$12,368, respectively. We further noted that the Health Department improperly reported \$157 in longevity pay under fringe benefits instead of the proper line item, salaries and wages. Improperly reporting longevity pay is a repeat finding from the 2013 Audit Report. We noted in the report that the Health Department's corrective action plan was to correctly report longevity payments by fiscal year-end 2014.

The Statement of Grant Program Revenues and Expenditures shows adjustments to each line item to reflect supported amounts. These adjustments had no effect on Family Planning Program grant funds.

### **Recommendation**

We again recommend that the Health Department implement review procedures to ensure all expenditures and revenues are accurately reported on its FSRs. We also recommend that the Health Department properly report its longevity pay on the proper line item, salaries and wages.



## **Finding**

### **5. Inaccurate Recording and Inadequate Support of Fees and Collections**

The Health Department did not properly record fees and collections in its accounting system. In addition, the Health Department did not maintain sufficient source documentation to support the recorded revenue amounts.

Title 2 CFR 200.302(b) (3) states the non-Federal entity's financial management system must provide, "Records that identify adequately the source and application of funds for federally-funded activities. These records must contain information pertaining to Federal awards, authorizations, obligations, unobligated balances, assets, expenditures, income and interest and be supported by source documentation." Additionally, Title 2 CFR 200.62(a) defines internal control over compliance requirements for Federal awards as a process designed to provide reasonable assurance that, "Transactions are properly recorded and accounted for, in order to: (1) Permit the preparation of reliable financial statements and Federal reports; (2) Maintain accountability over assets; and (3) Demonstrate compliance with Federal statutes, regulations, and the terms and conditions of the Federal award."

During our review, we noted that the Health Department improperly recorded \$298 of Immunization and Communicable Disease fees and collections to the Family Planning Program. We also noted that the Health Department did not provide sufficient source documentation to support \$476 of recorded Family Planning fees and collections. Furthermore, the Health Department also under recorded a sampled fees and collections entry by \$37 in the Family Planning Program accounting records.

The Statement of Grant Program Revenues and Expenditures shows adjustments to each fees and collections line item to reflect supported amounts. These adjustments had no effect on Family Planning Program grant funds.

## **Recommendation**

We recommend that the Health Department implement policies and procedures to ensure all fees and collections are properly recorded. We also recommend that the Health Department maintain sufficient source documentation to support all recorded revenue to ensure compliance with Federal regulations.

## **MDHHS SHARE OF COSTS AND BALANCE DUE**

**Objective 2:** To determine the MDHHS share of costs for the Family Planning Program in accordance with applicable MDHHS requirements and agreements, and any balance due to or due from the Health Department.

**Conclusion:** The MDHHS obligation under the Family Planning Program for fiscal year ended September 30, 2015, is \$61,031. The attached Statement of MDHHS Grant Program Revenues and Expenditures shows the budgeted, reported, and allowable costs. The audit made adjustments but none affected Family Planning grant program funding.

**Midland County Health Department  
Family Planning Services  
Statement of Grant Program Revenues and Expenditures  
10/1/15 - 9/30/16**

	<b>BUDGETED</b>	<b>REPORTED</b>	<b>AUDIT ADJUSTMENT</b>	<b>ALLOWABLE</b>
<b>REVENUES:</b>				
MDHHS Grant	\$61,031	\$61,031 <b>1</b>		\$61,031
Fees & Collections - 1st & 2nd Party	\$18,000	\$14,953	\$2,670 <b>2, 3</b>	\$17,623
Fees & Collections - 3rd Party	\$55,400	\$45,567	\$8,961 <b>2, 3</b>	\$54,528
Federal Cost Based Reimbursement	\$22,717	\$89,524		\$89,524
Required Match - Local	\$0	\$39,108		\$39,108
Local Funds - Other	\$357,487	\$212,269	\$2,414 <b>2, 3</b>	\$214,683
<b>TOTAL REVENUES</b>	<b>\$514,635</b>	<b>\$462,452</b>	<b>\$14,045</b>	<b>\$476,497</b>
<b>EXPENDITURES:</b>				
Salary & Wages	\$174,560	\$168,913	\$157 <b>2</b>	\$169,070
Fringe Benefits	\$92,344	\$92,279	(\$157) <b>2</b>	\$92,122
Supplies & Materials	\$96,100	\$41,469	\$13,074 <b>2</b>	\$54,543
Travel	\$3,600	\$1,317		\$1,317
Communication	\$100	\$78		\$78
County-City Central Services	\$29,151	\$43,183	\$971 <b>2</b>	\$44,154
Space Costs	\$24,766	\$27,671		\$27,671
Other	\$13,500	\$5,574		\$5,574
Indirect Costs	\$80,514	\$81,968		\$81,968
<b>TOTAL EXPENDITURES</b>	<b>\$514,635</b>	<b>\$462,452</b>	<b>\$14,045</b>	<b>\$476,497</b>

**1** Actual MDHHS payments.

**2** Financial Status Report Errors (Repeat) (Finding 4)

**3** Inaccurate Recording and Inadequate Support of Fees and Collections (Finding 6)

## Corrective Action Plan

**Finding Number:** 1

**Page Reference:** 3

**Finding:** **Predetermined Percentages Improperly Used to Distribute Salaries and Wages (Repeat)**

The Health Department did not properly allocate the salaries and wages of its Clinic Services Director and staff.

**Recommendation:** Adopt policies and procedures to properly allocate salaries and wages of the Clinic Services Director and staff based on actual activity to ensure compliance with Federal regulation. If electing to use budgeted allocation percentages, adjust charges to actual costs that are supported by records that accurately reflect the work performed as required. Alternatively, if the clerical staff and Clinic Services Director personnel costs are considered indirect costs, adopt policies and procedures to ensure the distribution is equitable in accordance with relative benefits derived.

**Comments:** Midland County Health Department agrees with the finding.

**Corrective Action:** Policies and procedures have been developed to ensure that all salaries and wages for its Clinic Services Director and staff are allocated based on actual activity. Also, Midland County will implement a new time tracking system around May 2018 that will track all employees' actual activity in the future.

**Person Responsible for Implementation:** Holly Beverly, Accountant

**Anticipated Completion Date:** October 1, 2017

**MDHHS Response:** None

## Corrective Action Plan

**Finding Number:** 2

**Page Reference:** 3

**Finding:** **Non-Compliant Wage and Fringe Benefit Distribution**

The Health Department did not properly allocate its Family Planning Program employees' wages and fringe benefits for employees working on multiple activities.

**Recommendation:** Implement policies and procedures to ensure that all salary, wages, and fringe benefit distributions are based on records that accurately reflect the work performed to ensure compliance with Federal regulation.

**Comments:** Midland County Health Department agrees with the finding.

**Corrective Action:** Policies and procedures have been developed to ensure all employees' salaries, wages, and fringe benefits are allocated based on actual work performed and no longer based on the employee's schedule.

**Person Responsible for Implementation:** Holly Beverly, Accountant

**Anticipated Completion Date:** January 1, 2017

**MDHHS Response:** None

## Corrective Action Plan

**Finding Number:** 3

**Page Reference:** 4

**Finding:** Improperly Allocated Fringe Benefits Based on Budgeted Amounts (Repeat)

The Health Department did not properly allocate its employees' fringe benefits.

**Recommendation:** Implement policies and procedures to ensure that all fringe benefits are properly allocated based on the benefits received to ensure compliance with Federal regulation.

**Comments:** Midland County Health Department agrees with the finding.

**Corrective Action:** Policies and procedures have been developed to ensure all employees' fringe benefits are allocated based on actual work performed.

**Person Responsible for Implementation:** Holly Beverly, Accountant

**Anticipated Completion Date:** January 1, 2017

**MDHHS Response:** None

## Corrective Action Plan

**Finding Number:** 4

**Page Reference:** 5

**Finding:** **Inaccurate Financial Status Reporting (Repeat)**

The Health Department did not accurately report expenditures and revenues on its FSR.

**Recommendation:** Implement review procedures to ensure all expenditures and revenues are accurately reported on its FSRs. Also, properly report its longevity pay on the proper line item, salaries and wages.

**Comments:** Midland County Health Department agrees with the finding.

**Corrective Action:** Implemented FSR monitoring procedures that include reconciling all expenditures and revenues to the FSR, correcting any identified errors, and verifying that all expenditures and revenues are reported on the appropriate FSR line item, prior to submitting the FSR.

**Person Responsible  
for Implementation:** Holly Beverly, Accountant

**Anticipated  
Completion Date:** January 1, 2017

**MDHHS Response:** None

## Corrective Action Plan

**Finding Number:** 5

**Page Reference:** 6

**Finding:** Inaccurate Recording and Inadequate Support of Fees and Collections

The Health Department did not properly record fees and collections in its accounting system. In addition, the Health Department did not maintain sufficient source documentation to support the recorded revenue amounts

**Recommendation:** Implement policies and procedures to ensure all fees and collections are properly recorded. Also, maintain sufficient source documentation to support all recorded revenue to ensure compliance with Federal regulations.

**Comments:** Midland County Health Department agrees with this finding.

**Corrective Action:** Midland County Health Department implemented controls, policies, and procedures to ensure that all fees and collections are properly recorded in its accounting system. In addition, all source documentation will be maintained to support the recorded revenue in compliance with Federal regulation.

**Person Responsible for Implementation:** Holly Beverly, Accountant

**Anticipated Completion Date:** October 1, 2017

**MDHHS Response:** None



## **Comment and Recommendation**

### **1. Insufficient Written Procedures for Determining Cost Allowability**

The Health Department did not have sufficient written procedures to determine cost allowability. Title 2 CFR 200.302 (b) (7) requires the financial management system to provide “Written procedures for determining the allowability of costs in accordance with Subpart E - Cost Principles of this Part and the terms and conditions of the Federal award.” During our review, the Health Department asserted that they had written procedures for determining cost allowability however they were never provided. Subsequent to our request, the Health Department stated that the written procedures were in draft form and should be presented to the Board for approval in late September 2017. We recommend that the Health Department develop sufficient written procedures for determining costs allowability to ensure compliance with Federal regulation.

#### **Management’s Response:**

The Health Department followed Midland County’s procedures for determining cost allowability. During the scope of the audit, it was determined that the County’s procedure policy was too broad in scope. As a result, the Health Department immediately designed and implemented its own procedures to determine cost allowability in compliance with the Federal regulation.