

# Audit Report

Saginaw County Department of Public Health  
WIC & Family Planning Programs

October 1, 2014 – September 30, 2015



Bureau of Audit, Reimbursement, and Quality Assurance  
Quality Assurance and Review  
January 2017



STATE OF MICHIGAN

DEPARTMENT OF HEALTH AND HUMAN SERVICES  
LANSING

RICK SNYDER  
GOVERNOR

NICK LYON  
DIRECTOR

January 9, 2017

John D. McKellar, MPA, Health Officer  
Saginaw County Department of Public Health  
1600 N. Michigan Avenue  
Saginaw, MI 48602

Dear Mr. McKellar:

Enclosed is our final report from the Michigan Department of Health and Human Services (MDHHS) audit of the Saginaw County Department of Public Health WIC Program and Family Planning Program for the period October 1, 2014 through September 30, 2015.

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 Comments and Recommendations. The Corrective Action Plans and the Comments and Recommendations include the agency's response to the Preliminary Analysis.

As a result of adjustments made to reported costs (Finding #1), a total of \$863 is due back to MDHHS. Please remit a check payable to the State of Michigan for \$863 to the following address by January 31, 2017:

Lora MacKay, Director  
Revenue and Federal Reporting Division  
Michigan Department of Community Health  
P.O. Box 30437  
Lansing, MI 48909

Thank you for the cooperation extended throughout this audit process.

Sincerely,

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

Enclosure

cc: Pam Myers, Director, Bureau of Audit, Reimbursement and Quality Assurance  
Stan Bien, Director, WIC Division  
Paulette Dobynes Dunbar, Manager, Division of Family and Community Health  
Deanna Charest, Manager, Reproductive and Preconception Health Unit  
Steve Utter, Financial Analyst, Division of Family and Community Health  
Lora MacKay, Director, Revenue and Federal Reporting Division  
Bryce Wooton, Auditor, Quality Assurance and Review  
Kathy Meyer, Accounting Supervisor, Saginaw County Department of Public Health

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## **DESCRIPTION OF AGENCY**

The Saginaw County Department of Public Health (Health Department) is governed under the Public Health Code, Act 368 of 1978. The Health Department is a Special Revenue Fund of Saginaw County, and the administrative office is located in Saginaw, Michigan. The Health Department operates under the legal supervision and control of the Board of Commissioners of Saginaw County. The Health Department provides community health program services to the residents of Saginaw County.

## **FUNDING METHODOLOGY**

The Health Department services are funded from local appropriations, fees and collections, and grant programs. The Michigan Department of Health and Human Services (MDHHS) provided 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 WIC Programs were funded by MDHHS Grant Funds. Grant funding from MDHHS for the WIC Programs is federal funding under federal catalog number 10.557.

The Family Planning Program was funded by MDHHS Grant Funds, and First and Third Party Fees and Collections. Grant funding from MDHHS for the Family Planning Program is federal funding under federal catalog number 93.217, 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 WIC and Family Planning Programs financial reporting, and to determine the MDHHS shares of WIC Program and Family Planning Program costs. The following were the specific objectives of the audit:

1. To assess the Health Department's effectiveness in reporting their WIC Program and 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 shares of cost for the WIC, WIC Breastfeeding, and Family Planning Programs 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, 2014 to September 30, 2015. Our review procedures included the following:

- Reviewed the most recent Health Department Single Audit report for any WIC Program or Family Planning Program concerns.
- Reviewed the completed Subrecipient Questionnaire.
- Reconciled the WIC Program and Family Planning 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 building space/lease costs for proper reporting and compliance with Federal requirements.
- Reviewed indirect cost and other cost allocations for reasonableness, and an equitable methodology.
- 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 their WIC Program and 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 its WIC Program and 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: reporting budgeted space costs as actual (Finding 1) (Repeat), Internal Service Funds exceeded the 60 day working capital reserve limit (Finding 2) (Repeat), Family Planning Program third-party payers were not appropriately billed (Finding 3), and a lack of a current cost study in establishing the schedule of fees (Finding 4) (Repeat).

#### Finding

##### **1. Reporting Budgeted Space Costs (Repeat)**

The Health Department reported their budgeted facilities costs on the Financial Status Report (FSR).

The MDHHS Grant Agreement, Part II, Section III. A. Compliance with Applicable Laws states:

*The Grantee will comply with applicable federal and state laws, guidelines, rules and regulations in carrying out the terms of this agreement. The Grantee will also comply with all applicable general administrative requirements such as OMB Circulars covering cost principles, grant/agreement principles, and audits in carrying out the terms of this agreement.*

The MDHHS Grant Agreement, Part II, Section IV, D. Financial Status Report Submission, states:

*FSR's must report total actual program expenditures regardless of the source of funds.*

According to OMB Circular A-87, Appendix A, Section C. Basic Guidelines:

1. *Factors affecting allowability of costs. To be allowable under Federal awards, costs must meet the following general criteria:*
  - b. *Be allocable to Federal awards under the provisions of 2 CFR part 225.*
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.*

The Health Department had \$538,555 in total actual space costs for the year. Before the start of the fiscal year, the Health Department budgeted space costs to be \$545,072. Instead of allocating the actual costs, the Health Department allocated the budgeted amount. We recalculated the space allocation to the WIC and Family Planning Programs using the actual costs. The variances for the fiscal year were \$499 for the WIC Program and \$364 for the Family Planning Program. This was also cited in the FYE 2013 MDHHS Audit Report. The latest planned corrective action (provided by the Health Department) was to alter the end of the year closing process to include a review of space allocations and make the necessary adjustments to allocated percentages based on used/occupied space, but this did not occur.

Adjustments are shown on the attached Statements of Grant Program Revenues and Expenditures.

### **Recommendation**

We again recommend that the Health Department implement policies and procedures to ensure that only actual space costs are allocated to the WIC Program and the Family Planning Program.

## **Finding**

### **2. Internal Service Fund Working Capital Reserves Exceed Allowable Amounts (Repeat)**

Saginaw County had Internal Service Funds which had working capital reserves that exceeded the allowable amount established by OMB Circular A-87 as of September 30, 2014.

Saginaw County charges most Departments (including the Health Department) for numerous expenses using internal service funds. The funds are used to finance the cost of providing numerous services for their departments. Based on the September 30, 2014 financial statements, the County had accumulated excess balances for four out of their ten internal service funds, two of which the Health Department participates in.

OMB Circular A-87 (located at 2 CFR Part 225), Appendix C, Sections G. 3. and G. 4. require comparisons of the charges to the actual allowable costs, and adjustments by one of several methods. Additionally, OMB Circular A-87, Appendix C, Section G. 2., allows for the establishment and maintenance of a reasonable level of working capital reserve for internal service funds. According to OMB Circular A-87, a working capital reserve as part of retained earnings of up to 60 days cash expenses for normal operating purposes is considered reasonable.

The following represents an analysis of Saginaw County's Internal Service Funds for the Year Ended September 30, 2014:

<b>Fund</b>	<b>A-87 Adjusted Retained Earnings (A)</b>	<b>60-Day Operating Expenses (B)</b>	<b>Excess (C) (A – B)</b>	<b>Months of Excess (D) ((C / B) x 2)</b>
Risk Management – Fund 677	\$657,856	\$351,658	\$306,198	1.7
Employee Benefits – Fund 698	\$3,109,902	\$1,224,022	\$1,885,880	3.1

Reductions are needed to achieve compliance with OMB Circular A-87 for the two funds above. This was also noted in our FYE 2013 audit for Funds 677 and 698.

## **Recommendation**

We again recommend that Saginaw County devise a plan to ensure the Internal Service Funds working capital reserves are reduced to the allowable limit (60 days cash expenses) by FYE 2017 by either cash refunds or adjustments to future billing rates/allocations.

## **Finding**

### **3. Non-Compliant Billing to Third Party Payers for Family Planning Program**

The Health Department did not always charge third party payers at the total amount of charges as required by Title X regulations.

The Michigan Title X Family Planning Program Standards & Guidelines Manual, Part II, Section C.8., Subsection 8.4.6, states:

*Where there is legal obligation or authorization for third party reimbursement, including public or private sources, all reasonable efforts **must** be made to obtain third party payment without the application of any discounts (42 CFR 59.5(a)(9)).*

In a sample of 13 third party billings, we noted one instance where the Health Department billed a third party payer different amounts other than what is stated on the schedule of fees. We also noted three instances where the Health Department billed Medicaid related insurances based on the amount that Medicaid is expected to reimburse the Health Department.

## **Recommendation**

We recommend that the Health Department comply with the Michigan Title X Family Planning Program Standards and Guidelines Manual and bill all third party payers, including Medicaid, for the total amount of charges.

## **Finding**

### **4. Lack of a Recent Cost Analysis for Establishing Family Planning Program Fees (Repeat)**

The Health Department did not use a recent cost analysis to develop their fee schedule for Family Planning Program Services.

The Michigan Title X Family Planning Program Standards and Guidelines Manual, Part II, Section C.8., Subsection 8.4.4, states:

*For persons from families whose income exceeds 250% of the FPL, charges **must** be made in accordance with a schedule of fees designed to recover the reasonable cost of providing services (42 CFR 59.5(a) (8)). Sub-recipients **must** document their process for determining how the schedule of fees is designed to recover the reasonable cost of providing services. Sub-recipients are encouraged to review their program costs and reassess their schedule of fees on an annual basis.*

*A. While not recommended to do so, sub-recipients may elect to set their fee schedule below what would recover the actual cost of providing services, based on their specific community needs and circumstances. To elect this option, the sub-recipient **must** have a policy in place that identifies the percentage of costs the fee schedule is designed to recover and the policy **must** be approved by the sub-recipient's administrative board.*



The Health Department has not performed a detailed cost analysis since 2007. This was also cited in our FYE 2013 audit. The response to the last audit was that “the Health Department will apply a cost analysis based on the auditor’s recommendation annually.” Rather than analyzing agency costs and setting fees that are reflective of actual costs of providing the individual services and supplies, the Health Department has simply completed an after-the-fact analysis to determine if rates charged could recover total costs, and determined a percent shortfall. This analysis does not represent a review of program costs and the setting of fees to recover the reasonable cost of providing services as required.

Recently, effective April 6, 2016, the Health Department adopted a Family Planning Fee Development Policy, which requires a cost study to be performed once every three years, with costs determined using a cost analysis tool.

### **Recommendation**

We again recommend that the Health Department perform a cost analysis at least once every three years, and use the analysis to establish fees to ensure recovery of the reasonable costs of providing services.

## **MDHHS SHARES OF COST AND BALANCE DUE**

**Objective 2:** To determine the MDHHS shares of cost for the WIC, WIC Breastfeeding and Family Planning Programs in accordance with applicable MDHHS requirements and agreements, and any balance due to or due from the Health Department.

**Conclusion:** The MDHHS obligations under the WIC, WIC Breastfeeding, and Family Planning Programs for fiscal year ended September 30, 2015, are \$661,688, \$38,826, and \$127,284; respectively. The attached Statements of Grant Program Revenues and Expenditures show the budgeted, reported, and allowable costs. The audit made adjustments that affected WIC Program and Family Planning Program grant funding with \$499 and \$364 due back, respectively.

**Saginaw County Department of Public Health  
WIC Resident Services  
Statement of Grant Program Revenues and Expenditures  
10/1/14 - 9/30/15**

	<b>BUDGETED</b>	<b>REPORTED</b>	<b>AUDIT ADJUSTMENT</b>	<b>ALLOWABLE</b>
<b>REVENUES:</b>				
MDHHS Grant	\$780,061	\$662,187 <sup>1</sup>	(\$499)	\$661,688
<b>TOTAL REVENUES</b>	\$780,061	\$662,187	(\$499)	\$661,688
<b>EXPENDITURES:</b>				
Salary & Wages	\$299,403	\$257,711		\$257,711
Fringe Benefits	\$241,199	\$200,010		\$200,010
Supplies & Materials	\$9,500	\$3,235		\$3,235
Travel	\$1,200	\$1,978		\$1,978
Communication	\$500	\$1,077		\$1,077
Space Costs	\$43,136	\$41,744	(\$499) <sup>2</sup>	\$41,245
All Other	\$6,724	\$2,454		\$2,454
Indirect Costs	\$178,399	\$153,978		\$153,978
Other Costs Distributions	\$0	\$0		\$0
<b>TOTAL EXPENDITURES</b>	\$780,061	\$662,187	(\$499)	\$661,688

<sup>1</sup> Actual MDHHS payments.

<sup>2</sup> Adjust space costs to actual (Finding 1) (Repeat)

**Saginaw County Department of Public Health  
WIC Breastfeeding  
Statement of Grant Program Revenues and Expenditures  
10/1/14 - 9/30/15**

	<b>BUDGETED</b>	<b>REPORTED</b>	<b>AUDIT ADJUSTMENT</b>	<b>ALLOWABLE</b>
<b>REVENUES:</b>				
MDHHS Grant	\$38,826	\$38,826 <sup>1</sup>		\$38,826
<b>TOTAL REVENUES</b>	\$38,826	\$38,826	\$0	\$38,826
<b>EXPENDITURES:</b>				
Salary & Wages	\$21,994	\$22,243		\$22,243
Fringe Benefits	\$7,199	\$6,810		\$6,810
Indirect Costs	\$9,633	\$9,773		\$9,773
<b>TOTAL EXPENDITURES</b>	\$38,826	\$38,826	\$0	\$38,826

<sup>1</sup> Actual MDHHS payments.

**Saginaw County Department of Public Health  
Family Planning  
Statement of Grant Program Revenues and Expenditures  
10/1/14 - 9/30/15**

	<b>BUDGETED</b>	<b>REPORTED</b>	<b>AUDIT ADJUSTMENT</b>	<b>ALLOWABLE</b>
<b>REVENUES:</b>				
MDCH Grant	\$127,648	\$127,648 <sup>1</sup>	(\$364)	\$127,284
Fees & Collections - 1st & 2nd Party	\$35,300	\$20,790		\$20,790
Fees & Collections - 3rd Party	\$129,500	\$94,651		\$94,651
Federal Cost Based Reimbursement	\$160,000	\$209,359		\$209,359
<b>TOTAL REVENUES</b>	<b>\$452,448</b>	<b>\$452,448</b>	<b>(\$364)</b>	<b>\$452,084</b>
<b>EXPENDITURES:</b>				
Salary & Wages	\$178,986	\$171,640		\$171,640
Fringe Benefits	\$139,716	\$146,750		\$146,750
Supplies & Materials	\$107,750	\$88,546		\$88,546
Travel	\$1,500	\$238		\$238
Communication	\$100	\$0		\$0
Space Costs	\$30,464	\$30,464	(\$364) <sup>2</sup>	\$30,100
All Other	\$86,084	\$105,028		\$105,028
Indirect Costs	\$105,172	\$107,106		\$107,106
Other Costs Distributions	(\$197,324)	(\$197,324)		(\$197,324)
<b>TOTAL EXPENDITURES</b>	<b>\$452,448</b>	<b>\$452,448</b>	<b>(\$364)</b>	<b>\$452,084</b>

<sup>1</sup> Actual MDHHS payments.

<sup>2</sup> Adjust space costs to actual (Finding 1) (Repeat)

## Corrective Action Plan

**Finding Number:** 1

**Page Reference:** 2

**Finding:** Reporting Budgeted Space Costs (Repeat)

The Health Department reported their budgeted facilities costs on the Financial Status Report (FSR).

**Recommendation:** Implement policies and procedures to ensure that only actual space costs are allocated to the WIC Program and the Family Planning Program.

**Comments:** The net space costs were affected by a small amount of additional revenue earned by shared profits from various vending machines in our facility.

**Corrective Action:** Revised the spreadsheet used to allocate facility use fee to include all revenue sources so that only the net expenses are allocated to all users of building space.

**Anticipated**

**Completion Date:** Implemented in FY 2016

**MDHHS Response:** None

## Corrective Action Plan

**Finding Number:** 2

**Page Reference:** 4

**Finding:** Internal Service Fund Working Capital Reserves Exceed Allowable Amounts (Repeat)

Saginaw County had multiple Internal Service Funds which had working capital reserves that exceeded the allowable amount established by OMB Circular A-87 as of September 30, 2014.

**Recommendation:** Devise a plan to ensure the Internal Service Funds working capital reserves are reduced to the allowable limit (60 days cash expenses) by FYE 2017 by either cash refunds or adjustments to future billing rates/allocations.

**Comments:** Saginaw County has reviewed the 2014 and 2015 Cost Allocation Plans as prepared by their consulting firm and did notice that several Internal Service Funds were reported to have available months of working capital reserves that exceed the allowable 60 days of expenses. As Saginaw County is self-insured for Risk Management and Employee Benefits, they have engaged an actuarial consulting firm to prepare an analysis of the balances in these two funds as of September 30, 2014 with a projection for 2014-2015.

**Corrective Action:** Saginaw County is currently working with their auditors to complete the audit for FY 2016; however, the 2015 Cost Allocation Plan that was used in the FY 2017 budget process has already been completed and finalized. Saginaw County will be setting up a meeting with their Cost Allocation Plan consultant after the FY 2016 audit has been completed to determine how the working capital reserves are calculated in an effort to better determine how to effectively reduce the available months of workings capital reserves.

This should allow Saginaw County during the FY 2018 or FY 2019 budget process to look at ways in reducing the working capital reserves in Internal Service Funds to the amount allowable according to OMB Circular A-87.

**Anticipated**

**Completion Date:** FYE 2018 or FYE 2019

**MDHHS Response:** None

## Corrective Action Plan

**Finding Number:** 3

**Page Reference:** 5

**Finding:** Non-Compliant Billing to Third Party Payers for Family Planning Program

The Health Department did not always charge third party payers at the total amount of charges as required by Title X regulations.

**Recommendation:** Comply with the Michigan Title X Family Planning Program Standards and Guidelines Manual and bill all third party payers, including Medicaid, for the total amount of charges.

**Comments:** Saginaw County's client/clinic management software charge file is maintained by a staff programmer. Changes to the charge file are made when the fee schedule and sliding fee schedule are approved and updated. Staff has assured the Accounting Supervisor that full charges at 100% of the sliding fee scale is the amount contained in the charge file. Those charges are automatically posted on all original claims filed. Refiling claims to another payer when the original claim is denied requires manual adjustments and it is likely billing staff may make errors when posting total charges.

**Corrective Action:** Share this finding with billing staff and remind them of the importance of reviewing the claim files for accuracy before filing claims.

**Anticipated**

**Completion Date:** Discussion has already taken place.

**MDHHS Response:** None



## Corrective Action Plan

**Finding Number:** 4

**Page Reference:** 5

**Finding:** Lack of a Recent Cost Analysis for Establishing Family Planning Program Fees (Repeat)

The Health Department did not use a recent cost analysis to develop their fee schedule for Family Planning Program Services.

**Recommendation:** Perform a cost analysis at least once every three years, and use the analysis to establish fees to ensure recovery of the reasonable costs of providing services.

**Comments:** Agree with finding. Within the last year Family Planning staff at MDHHS distributed a Family Planning cost analysis tool updated in 2015. This analysis method appears less burdensome and easier to use.

**Corrective Action:** Plan to use the most recent cost analysis tool on Family Planning FY 2016 expenses once the County Financial Statements are finalized.

**Anticipated**

**Completion Date:** Spring 2017

**MDHHS Response:** None

## **Comment and Recommendation**

### **1. Family Planning Contractual Physician Payments Without Invoices**

The Health Department is required to comply with OMB Circular A-87. According to OMB Circular A-87, to be allowable, costs must be adequately documented. According to the Professional Service Agreement made between the Health Department and a physician, payment by the Health Department to the physician shall be in the form of expense checks processed upon submission of biweekly or monthly invoices from the physician. The physician, however, did not submit biweekly or monthly invoices. The Health Department, despite not receiving any invoices from the physician, has continued to process expense checks without adequate documentation. We recommend that the Health Department implement policies and procedures to ensure proper documentation is obtained and retained, and all contractual terms are enforced and followed.

#### **Management Response:**

The referenced agreement for the Medical Director of the Family Planning Program has been updated to include language for compensation to be paid in quarterly increments based on an annual amount eliminating the need for the physician to submit invoices.