



STATE OF MICHIGAN

DEPARTMENT OF HEALTH AND HUMAN SERVICES
LANSING

RICK SNYDER
GOVERNOR

NICK LYON
DIRECTOR

January 17, 2017

Denise Bryan, MPA
Health Officer
District Health Department #4
100 Woods Circle, Suite 200
Alpena, MI 49707

Dear Ms. Bryan:

Enclosed is our final report from the Michigan Department of Health and Human Services audit of the District Health Department #4 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 Plan; and Comments and Recommendations. The Corrective Action Plan and Comments and Recommendations include the agency's response to the Preliminary Analysis.

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
Bryce Wooton, Auditor, Quality Assurance and Review
Judy Greer, Administrative Services Director

Audit Report

District Health Department #4
WIC & Family Planning Programs

October 1, 2014 – September 30, 2015



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

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DESCRIPTION OF AGENCY

The District Health Department #4 (Health Department) is governed under the Public Health Code, Act 368 of 1978. The Health Department is a component unit of Alpena County, which is the reporting entity, and the administrative office is located in Alpena, Michigan. The Health Department operates under the legal supervision and control of the Board of Health, which is comprised of commissioners from Alpena, Cheboygan, Montmorency and Presque Isle Counties. The Health Department provides community health program services to the residents of these four counties.

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 and Other Local 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, 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 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 one exception related to both the WIC Program and Family Planning Program. We noted that the methodology used in the allocation of salary and wages is not in compliance with OMB Circular A-87 (Finding 1).

Finding

1. Non-Compliant Salary and Wage Allocation Methodology

The Health Department did not properly allocate salaries and wages based on actual costs of individual employees.

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.

According to OMB Circular A-87, Appendix B, Section 8:

(a) *General. Compensation for personnel services...are allowable to the extent that they satisfy the specific requirements of this and other appendices under 2 CFR Part 225, and that the total compensation for individual employees:*

(3) Is determined and supported as provided in subsection h.

(h) *Support of salaries and wages...*

(4) Where employees work on multiple activities or cost objectives, a distribution of their salaries and wages will be supported by personnel activity reports or equivalent documentation which meets the standards in subsection 8.h.(5) of this appendix unless a statistical sampling system (see subsection 8.h.(6) of this appendix) or other substitute system has been approved by the cognizant Federal agency. Such documentation support will be required where employees work on:

(a) More than one Federal award,...

(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.

The Health Department maintains personnel activity reports for all employees, which show an employee's time spent on each Health Department Program. The Health Department has Secretarial staff who submit their personnel activity reports electronically and also Nursing staff who submit personnel activity reports manually. After one month, the Health Department determines a percentage of time spent on each Health Department Program by adding together the hours accumulated in a Program and dividing it by the total hours worked for each Health Department Program by all employees. This calculation is done exactly the same for the Secretarial staff pool and the Nursing staff pool. The wage allocation percentages for each Health Department Program are applied to the total Secretarial staff and also the total Nursing staff salaries and wages.

The Health Department's methodology of allocating wages to programs does not comply with OMB Circular A-87. To be allowable, compensation for personnel services charged to an award must be based on **actual costs of individual employees that are supported by personnel activity reports**. The Health Department's allocations do not represent actual costs of individual employees that are supported by personnel activity reports. Rather, the Health Department's allocations to programs represent a distribution of every employees' salaries and wages that work as secretarial or nursing staff in the Health Department.

In the one month tested, based on hours worked in programs and employees' pay rates, we determined that the Health Department's methodology resulted in an overcharge to the WIC Program and Family Planning Program by \$2,113 and \$400, respectively. No adjustments are recommended since the amount of local funding used for each program appears sufficient to cover the overcharges.

Recommendation

We recommend that the Health Department implement policies and procedures to ensure that salaries and wages are allocated in accordance with applicable cost principles (2 CFR 200.430 effective with FYE 2016 awards forward).

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 \$295,920, \$57,551, and \$65,403; respectively. The attached Statements of Grant Program Revenues and Expenditures show the budgeted, reported, and allowable costs.

District Health Department #4
WIC Resident Services
Statement of Grant Program Revenues and Expenditures
10/1/14 - 9/30/15

	BUDGETED	REPORTED	AUDIT ADJUSTMENT	ALLOWABLE
REVENUES:				
MDHHS Grant	\$295,920	\$295,920 ¹		\$295,920
Fees & Collections - 1st & 2nd Party	\$0	\$533		\$533
Fees & Collections - 3rd Party	\$7,500	\$6,270		\$6,270
Local Funds - Other	\$44,408	\$61,173		\$61,173
TOTAL REVENUES	\$347,828	\$363,896	\$0	\$363,896
EXPENDITURES:				
Salary & Wages	\$156,837	\$164,151		\$164,151
Fringe Benefits	\$71,565	\$63,263		\$63,263
Supplies & Materials	\$8,300	\$3,676		\$3,676
Travel	\$4,000	\$3,829		\$3,829
Communication	\$2,636	\$2,285		\$2,285
Space Costs	\$22,000	\$26,096		\$26,096
Other	\$6,200	\$7,443		\$7,443
Indirect Costs	\$63,000	\$78,308		\$78,308
Other Costs Distributions	\$13,290	\$14,845		\$14,845
TOTAL EXPENDITURES	\$347,828	\$363,896	\$0	\$363,896

¹ Actual MDHHS payments.

**District Health Department #4
WIC Breastfeeding
Statement of Grant Program Revenues and Expenditures
10/1/14 - 9/30/15**

	BUDGETED	REPORTED	AUDIT ADJUSTMENT	ALLOWABLE
REVENUES:				
MDHHS Grant	\$57,551	\$57,551 ¹		\$57,551
Local Funds - Other	\$14,104	\$12,690		\$12,690
TOTAL REVENUES	\$71,655	\$70,241	\$0	\$70,241
EXPENDITURES:				
Salary & Wages	\$32,936	\$26,102		\$26,102
Fringe Benefits	\$6,917	\$9,254		\$9,254
Supplies & Materials	\$467	\$431		\$431
Travel	\$3,000	\$5,737		\$5,737
Communication	\$1,224	\$848		\$848
Space Costs	\$5,736	\$5,797		\$5,797
Other	\$100	\$313		\$313
Indirect Costs	\$10,759	\$12,175		\$12,175
Other Costs Distributions	\$10,516	\$9,584		\$9,584
TOTAL EXPENDITURES	\$71,655	\$70,241	\$0	\$70,241

¹ Actual MDHHS payments.

**District Health Department #4
Family Planning Services
Statement of Grant Program Revenues and Expenditures
10/1/14 - 9/30/15**

	BUDGETED	REPORTED	AUDIT ADJUSTMENT	ALLOWABLE
REVENUES:				
MDHHS Grant	\$65,403	\$65,403 ¹		\$65,403
Fees & Collections - 1st & 2nd Party	\$10,000	\$2,435		\$2,435
Fees & Collections - 3rd Party	\$58,000	\$32,841		\$32,841
Federal Cost Based Reimbursement	\$11,887	\$50,967		\$50,967
Required Match - Local	\$1,254	\$0		\$0
Local Funds - Other	\$55,090	\$5,098		\$5,098
TOTAL REVENUES	\$201,634	\$156,744	\$0	\$156,744
EXPENDITURES:				
Salary & Wages	\$84,054	\$62,985		\$62,985
Fringe Benefits	\$38,354	\$26,864		\$26,864
Supplies & Materials	\$18,026	\$13,206		\$13,206
Travel	\$2,000	\$3,093		\$3,093
Communication	\$1,200	\$864		\$864
Space Costs	\$10,000	\$9,365		\$9,365
Other	\$2,500	\$3,741		\$3,741
Indirect Costs	\$38,000	\$30,939		\$30,939
Other Costs Distributions	\$7,500	\$5,687		\$5,687
TOTAL EXPENDITURES	\$201,634	\$156,744	\$0	\$156,744

¹ Actual MDHHS payments.

Corrective Action Plan

Finding Number: 1

Page Reference: 3

Finding: Non-Compliant Salary and Wage Allocation Methodology

The Health Department did not properly allocate salaries and wages based on actual costs of individual employees.

Recommendation: Implement policies and procedures to ensure that salaries and wages are allocated in accordance with applicable cost principles (2 CFR 200.430 effective with FYE 2016 awards forward).

Comments: None.

Corrective Action: The Health Department has purchased the Abila software package that will allow the distribution of salary and fringe benefits to the actual programs the staff provides service.

Anticipated

Completion Date: January 1, 2017 – All Payroll Cycles in 2017 will be distributed based on actual time coded to each program by staff.

MDHHS Response: None.

Comment and Recommendation

1. Not Charging Family Planning Program Clients According to the Sliding Fee Scale

The Health Department did not always charge their clients according to the sliding fee scale as required by Title X.

According to Title X regulations at 42 CFR 59.5:

(a) 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....

MDHHS Title X Family Planning Program Standards & Guidelines, Part II, Section C.8., Subsection 8.4.2, states:

*A schedule of discounts **must** be developed for individuals with family income between 101% and 250% of the FPL, to assure that services are billed based on ability to pay, (42 CFR 59.5(a) (8)).*

*A. Individual eligibility for a discount **must** be documented in the client's record/file. Client income should be re-evaluated at least annually.*

In a sample of 12 encounters, we noted one instance where the client's family income was below 200% of the FPL (50% discount, 50% payment) but the Health Department billed the client as if family income was between 201% - 250% of the FPL (25% discount, 75% payment). This caused the patient to be over-billed by \$50.50.

Recommendation

We recommend that the Health Department provide training to employees on charging clients appropriately according to the sliding fee scale, and implement review procedures to ensure compliance.

Management Response:

The client encounter in question was reviewed and determined that the incorrect sliding fee schedule was used. The client charges have been corrected and the client will receive a refund of the overpayment as the client now has private insurance. The billing department will perform periodic review of the income calculations to ensure appropriate use of the sliding fee schedule.

Comment and Recommendation

2. Non-Compliant Billing to Family Planning Program Third Party Payers

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

According to Title X regulations at 42 CFR 59.5:

(a) Each project supported under this part must:

(9) If a third party (including a Government agency) is authorized or legally obligated to pay for services, all reasonable efforts must be made to obtain the third-party payment without application of any discounts.

MDHHS Title X Family Planning Program Standards & Guidelines, 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 26 third party billings, we noted four instances where the Health Department billed a third party payer different amounts other than what is stated on the schedule of fees. It appears the amounts being billed were from the prior schedule of fees that was in effect, rather than the newly updated schedule.

Recommendation

We recommend that the Health Department comply with Title X regulations, and the Michigan Title X Family Planning Program Standards and Guidelines Manual and bill all third party payers for the total amount of charges based on the most recent schedule of fees.

Management Response:

Reviewed with the billing department the process of billing services for the Family Planning Program. The Account Clerk will verify the charges before billing is complete to ensure the appropriate fees are being charged.

Comment and Recommendation

3. Lack of Adequate Supporting Documentation for Setting Fees Below Actual Costs

The Health Department completed a cost analysis in 2015 and elected to design a schedule of fees set below those actual costs without the proper documentation.

MDHHS Title X Family Planning Program Standards & Guidelines, Part II, Section C.8., Subsection 8.4.4, states:

*...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 properly reviewed program costs and reassessed their schedule of fees on an annual basis but failed to adequately support the process of setting the fee schedule below actual costs. The Health Department has stated the schedule of fees is set to the amount that they can allowably bill to insurances. There is no administrative board approved policy in place identifying the percentage of costs the fee schedule is designed to recover.

Recommendation

We recommend that the Health Department comply with the Michigan Title X Family Planning Program Standards and Guidelines Manual and adequately support the process of designing a schedule of fees set below actual costs.

Management Response:

On December 20, 2016 the District Health Department No. 4 Board of Health authorized the Department to charge 20% of the Family Planning Cost Study rates for the Family Planning Program. A policy has been developed and implemented with an effective date of January 1, 2017.