

Audit Report

Sanilac County Health Department
Family Planning Program

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

Bryant Wilke, RS, MPH Health Officer
Sanilac County Health Department
171 Dawson Street
Sandusky, MI 48471

Dear Mr. Wilke:

Enclosed is our final report from the Michigan Department of Health and Human Services audit of the Sanilac County Health Department 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; Objectives; Scope and Methodology; Conclusions; Statement of Grant Program Revenues and Expenditures; and Corrective Action Plans. 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,

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

Enclosure

cc: Paulette Dobyne Dunbar, Manager, Division of Family and Community Health
Deanna Charest, Manager, Reproductive and Preconception Health Unit
Pam Myers, Director, Bureau of Audit, Reimbursement and Quality Assurance
Steve Utter, Financial Analyst, Division of Family and Community Health
Tara Griffith, Finance Director, Sanilac County Health Department

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DESCRIPTION OF AGENCY

The Sanilac 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 Sanilac County, and the administrative office is located in Sandusky, Michigan. The Health Department operates under the legal supervision and control of the Board of Commissioners of Sanilac County. The Health Department provides community health program services to the residents of Sanilac 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 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 Program 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 Family Planning Program financial reporting, and to determine the MDHHS share of Family Planning Program costs. The following were the specific objectives of the audit:

1. To assess the Health Department's effectiveness in reporting their 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, 2014 to September 30, 2015. 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/lease 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 their Family Planning Program financial activity to MDHHS 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 MDHHS in accordance with applicable MDHHS requirements and agreements, applicable federal standards, and generally accepted accounting principles. However, we noted exceptions related to the reporting of Medicaid cost-based reimbursement revenue (Finding 1), and indirect cost calculations (Finding 2).

Finding

1. Misreported Medicaid Cost-Based Reimbursement

The Health Department misclassified Medicaid cost-based reimbursement on the FYE 2015 Financial Status Report, and did not report the full amount received and the amount carried forward on the FYE 2015 reconciliation form submitted to MDHHS.

The Health Department received \$2,744 of Medicaid cost-based reimbursement (MCBR) related to the Family Planning Program in FYE 2015. Of this amount, \$886 was carried forward and not reported as revenue in FYE 2015 as allowed by MDHHS. However, \$1,858 was incorrectly reported as local revenue on the Financial Status Report rather than Federal Cost-Based Reimbursement. Additionally, the Health Department provided a reconciliation form to MDHHS that shows only \$1,858 in available and spent MCBR for FYE 2015, rather than the full \$2,744 received, and \$886 carried forward.

The Financial Status Report Instructions require the reporting of revenues and expenditures in the appropriate categories as provided. Additionally, the reconciliation form provided by MDHHS includes columns for the amount distributed to the agency and the amount of excess MCBR to be carried over.

Adjustments are shown on the attached Statement of Grant Program Revenues and Expenditures. These adjustments, however, had no impact on MDHHS funding.

Recommendation

We recommend the Health Department adopt policies and procedures to ensure the proper reporting of Medicaid cost-based reimbursement.

Finding

2. Indirect Cost Calculation Errors

The Health Department overstated indirect costs on the FYE 2015 FSR by not removing applicable credits nor capital outlay from the monthly calculations, which resulted in an inflated administrative cost pool and over reported expenditures.

The Health Department's contract with MDHHS (Part II, Section III, Part A.) requires compliance with OMB Circular A-87 (located at 2 CFR Part 225). OMB Circular A-87 states the following with respect to the composition of cost at Appendix A, Section D.:

- 1. Total cost. The total cost of Federal awards is comprised of the allowable direct cost of the program, plus its allocable portion of allowable indirect costs, less applicable credits.*

To be allowable under Federal awards, costs must “be the net of all applicable credits” according to Appendix A, Section C. 1. i. of OMB Circular A-87. “Applicable credits” is defined as follows in Appendix A, Section C. 4. of OMB Circular A-87:

- a. Applicable credits refer to those receipts or reduction of expenditure-type transactions that offset or reduce expense items allocable to Federal awards as direct or indirect costs. Examples of such transactions are: Purchase discounts, rebates or allowances, recoveries or indemnities on losses, insurance refunds or rebates, and adjustments of overpayments or erroneous charges. To the extent that such credits accruing to or received by the governmental unit relate to allowable costs, they shall be credited to the Federal award either as a cost reduction or cash refund, as appropriate.*

Additionally, according to OMB Circular A-87, Appendix B, Section 15. b. (5):

Equipment and other capital expenditures are unallowable as indirect costs.

The Health Department received miscellaneous revenue items throughout the year totaling \$2,232 for items such as service credits, refunds, and rebates related to administrative expenditures. These receipts were not netted against expenditures as required when calculating the administrative cost allocation. Additionally, a capital outlay of \$5,526 was improperly included in the indirect cost pool. After removing the applicable credits and capital outlay from the administrative cost pool, we determined indirect costs were overstated \$582 for the Family Planning Program for FYE 2015.

Adjustments are shown on the attached Statement of Grant Program Revenues and Expenditures. These adjustments, however, had no impact on MDHHS funding.

Recommendation

We recommend that the Health Department implement policies and procedures to ensure that costs included in the administrative cost pool are appropriately reduced by applicable credits and capital outlay to ensure the proper calculation and distribution of indirect costs.

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 \$72,115. The attached Statement of Grant Program Revenues and Expenditures shows the budgeted, reported, and allowable costs. The audit made no adjustments affecting Family Planning Program Costs.

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

	BUDGETED	REPORTED	AUDIT ADJUSTMENT	ALLOWABLE
REVENUES:				
MDHHS Grant	\$72,115	\$72,115 ¹		\$72,115
Fees & Collections - 1st & 2nd Party	\$4,500	\$6,065		\$6,065
Fees & Collections - 3rd Party	\$39,951	\$43,432		\$43,432
Federal Cost Based Reimbursement	\$4,603	\$0	\$1,858 ²	\$1,858
Local Funds - Other	\$2	\$2,882	(\$1,858) ² (582) ³	\$442
TOTAL REVENUES	\$121,171	\$124,494	(\$582)	\$123,912
EXPENDITURES:				
Salary & Wages	\$43,213	\$50,321		\$50,321
Fringe Benefits	\$21,524	\$21,524		\$21,524
Contractual	\$0	\$0		\$0
Supplies & Materials	\$7,550	\$10,489		\$10,489
Travel	\$710	\$964		\$964
Communication	\$518	\$363		\$363
County-City Central Services	\$0	\$0		\$0
Space Costs	\$6,722	\$6,922		\$6,922
Other	\$13,946	\$8,357		\$8,357
Indirect Costs	\$26,988	\$25,554	(\$582) ³	\$24,972
TOTAL EXPENDITURES	\$121,171	\$124,494	(\$582)	\$123,912

¹ Actual MDHHS payments.

² To properly classify Medicaid cost-based reimbursement (Finding 1).

³ To adjust for overstated Indirect Costs (Finding 2).

Corrective Action Plan

Finding Number: 1

Page Reference: 3

Finding: **Misreported Medicaid Cost-Based Reimbursement**

The Health Department misclassified Medicaid cost-based reimbursement (MCBR) on the FYE 2015 Financial Status Report, and did not report the full amount received and the amount carried forward on the FYE 2015 reconciliation form submitted to MDHHS.

Recommendation: Adopt policies and procedures to ensure the proper reporting of Medicaid cost-based reimbursement.

**Health Department
Comments:**

There was much confusion surrounding the influx of MCBR during FY 2015. The State's reconciliation form for FYE 2015 was not distributed to Health Officers and Financial Staff until December 3, 2015. Sanilac County Health Department submitted the final Financial Status Report (FSR) for FY 2015 on November 11, 2015. A memo was attached to the final FSR addressing restricted MCBR balance for the Family Planning Program that would be carried forward for future use in this program.

Corrective Action: Establish a financial policy that clearly outlines the reporting requirements necessary to remain in compliance for MCBR reporting on FSR's submitted to MDHHS.

**Anticipated
Completion Date:** January 31, 2017

MDHHS Response: None

Corrective Action Plan

Finding Number: 2

Page Reference: 3

Finding: Indirect Cost Calculation Errors

The Health Department overstated indirect costs on the FYE 2015 FSR by not removing applicable credits nor capital outlay from the monthly calculations, which resulted in an inflated administrative cost pool and over reported expenditures.

Recommendation: Implement policies and procedures to ensure that costs included in the administrative cost pool are appropriately reduced by applicable credits and capital outlay to ensure the proper calculation and distribution of indirect costs.

**Health Department
Comments:**

Director of Finance reviewed OMB Circular A-87 regulations regarding equipment and other capital expenditures being unallowable as indirect costs. Sanilac County rarely purchases equipment and agrees that a formal procedure is necessary to ensure proper accounting practices are being followed. The applicable credit issue was an oversight by the Director of Finance and was corrected for FY 2016.

Corrective Action: Develop a policy specific to the indirect cost calculation that outlines the allowable revenues and expenses to be included. Further, the policy will identify revenues and expenses that are to be excluded, and more specifically, how these excluded items should be properly allocated.

**Anticipated
Completion Date:** January 31, 2017

MDHHS Response: None