



STATE OF MICHIGAN

RICK SNYDER
GOVERNOR

DEPARTMENT OF HEALTH AND HUMAN SERVICES
LANSING

NICK LYON
DIRECTOR

July 5, 2017

Mark Valacak, MPH, Health Officer
Genesee County Health Department
630 S. Saginaw St.
Flint, MI 48502

Dear Mr. Valacak:

Enclosed is our final report from the Michigan Department of Health and Human Services audit of the Genesee County Health Department 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 Comments and Recommendations include the agency's response to the Preliminary Analysis.

Thank you for the cooperation extended throughout this audit process.

Sincerely,

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

Enclosure

cc: Debra Hallenbeck, Director, Audit Division
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Audit Report

Genesee County Health Department
WIC and Family Planning Programs

October 1, 2014 – September 30, 2015



Bureau of Audit, Reimbursement, and Quality Assurance

Audit Division

July 2017

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DESCRIPTION OF AGENCY

The Genesee 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 Genesee County, and the administrative office is located in Flint in the Genesee County Health Department building. The Health Department operates under the legal supervision and control of the Board of Commissioners of Genesee County. The Health Department provides community health programs to residents of Genesee 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 Program was funded by MDHHS grant funds and fees and collections. Grant funding from MDHHS for the WIC Program 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 indirect cost and other cost allocations for reasonableness, and an equitable methodology.
- Reviewed Family Planning Program 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: non-compliant Family Planning Program salaries and fringes distribution (Finding 1), indirect cost allocation inaccuracies (Finding 2), internal services fund working capital reserves exceed allowable amounts (Finding 3) (repeat), and fixed amount awards to subrecipients (Finding 4).

Finding

1. Non-Compliant Family Planning Program Salaries and Fringes Distribution

The Health Department did not properly document and allocate Family Planning Program employees' salaries and fringes for employees working on multiple activities in accordance with OMB Circular A-87.

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.

OMB Circular A-87, Appendix B, Section 8. h. 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)...unless a statistical sampling system or other substitute system has been approved by the cognizant Federal agency...*
- (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.*

OMB Circular A-87, Appendix B, Section 8.d.states:

- (2) 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, sick leave, holidays...are allowable if ...the costs are equitably allocated to all related activities.*

The Health Department designates a home department for each employee. If an employee does not submit their personnel activity report to payroll services by the Tuesday after the PPE, payroll services will allocate 100% of the employee's time to the home department and will make correcting journal entries once the personnel activity report is received. The Health Department applies the employee's hourly rate by the actual hours worked in a program to determine the allocable amount per program. Leave time is allocated only to the employee's home department and not properly allocated to all benefitting programs based on an after-the-fact distribution of actual time.

Of the two pay periods tested involving eight employees working on multiple programs, including the Family Planning Program, the Health Department did not have personnel activity reports for two employees for one pay period to support the distribution of their salaries and wages (2 of 16 personnel activity reports were missing). The Health Department allocated 50% of one employee's time and 100% of the other employee's time to the Family Planning Program with no supporting documentation to verify actual hours worked. These same percentages were used to allocate fringe benefits.

The Health Department did not properly allocate employees' salaries and wages based on their personnel activity reports for PPE 8/14/2015. The Health Department attempted to make adjusting journal entries for employees who did not submit personnel activity reports in the allowed time, but made errors. The first employee in question only worked 10% of their time on the Family Planning Program, however, after adjusting journal entries were made the time allocated to the Family Planning Program equaled 10.5% of this employee's total time worked. The second employee in question has a personnel activity report which indicates zero hours were worked on the Family Planning Program, however, this employee's total gross wages were allocated to the Family Planning Program. The Health Department's adjusting journal did not reverse the entire gross amount. The third employee in question had gross wages split 50/50 between Family Planning and another program. Once the personnel activity report was received, payroll services attempted an adjusting journal entry which resulted in a minor variance. The Health Department overstated salaries & wages by a total of \$705 for PPE 8/14/2015 for the Family Planning Program.

An adjustment is shown on the attached Statement of Grant Program Revenues and Expenditures.

Recommendation

We recommend that the Health Department adopt policies and procedures to ensure that all salary and fringe distributions are based on records that accurately reflect the work performed as required by 2 CFR 200.

Finding

2. Indirect Cost Allocation Inaccuracies

The Health Department did not accurately compute the indirect cost allocations resulting in a misstatement of indirect costs for benefitting programs.

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.

OMB Circular A-87 (located at 2 CFR 225), Appendix A, states the following with respect to allowable and indirect costs:

C. Basic Guidelines

- 1. To be allowable under Federal awards, costs must meet the following general criteria:*
 - b. Be allocable to Federal awards...*
 - i. Be the net of all applicable credits...*
 - j. Be adequately documented.*
- 3. Allocable costs*
 - b. All activities which benefit from the governmental unit's indirect cost...will receive an appropriate allocation of indirect costs.*
- 4. Applicable credits*
 - a. Applicable credits refer to those receipts or reductions of expenditure-type transactions that offset or reduce expense items allocable to Federal awards as direct or indirect costs.*

D. Composition of Cost

- 1. 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.*

F. Indirect Costs

- 1. ...Indirect cost pools should be distributed to benefitted cost objectives on bases that will produce an equitable result in consideration of relative benefits derived.*

The Health Department's agency support cost allocation methodology did not result in an appropriate allocation of agency support costs to benefitting programs. The Health Department's methodology was a 2-step process. First, the Health Department determined a rate using salaries and fringes as the distribution base. Second, recognizing that not all programs have salaries and fringes, the Health Department attempted to establish a rate to apply to the contractual cost of programs. However, this rate was faulty as (1) the cost pool was based on an unsupported amount (unjustified portions of costs included in the original rate determination), and (2) the distribution base was the total agency support cost pool amount, not a base for which the costs would be distributed. While the intent was appropriate, the calculations were faulty and resulted in \$523,668 of agency support costs NOT being allocated to programs.

In addition to the above faulty methodology, we noted the following inaccuracies related to (A.) the agency support cost allocation, and (B.) the billing, nursing, and laboratory cost allocation:

A. Agency support cost allocation inaccuracies:

- 1.) The Health Department used agency support cost allocation rates that were not based on actual final numbers when calculating and reporting agency support expenditures on program FSRs.

- 2.) The Health Department calculated agency support salaries and fringes incorrectly causing an over-stated distribution base.
- 3.) The Health Department did not properly exclude revenues from the agency support cost pool amount.
- 4.) The Health Department included County Central Services Costs in the agency support cost pool that are based on budgeted amounts rather than actual.

B. Billing, nursing, and laboratory cost allocation inaccuracies:

- 1.) The Health Department included each of these three programs in the distribution base of the agency support cost allocation calculation, but failed to properly allocate the equitable share to each of these programs. Therefore, the cost pool amounts for billing, nursing, and laboratory were not composed of total costs.
- 2.) The Health Department excluded \$9,000 more MCH expenses from the Laboratory cost pool than actual.
- 3.) The Health Department was not able to adequately support the indirect allocation rate used for Laboratory costs (repeat issue from FYE 2013 audit, and same unsupported rate of 15.9% used).

Adjustments are not being proposed to correct the inaccuracies. We determined that some programs were overcharged, and others were undercharged, but we could not readily identify appropriate adjustment amounts. In total, however, indirect costs were underreported. Determining adjustment amounts would be of little value since the grant programs are now closed for FYE 2015 and it is not possible to obtain additional funding at this time.

Recommendation

We recommend that the Health Department implement policies and procedures to ensure that all indirect costs are allocated based on actual and allowable expenditures, and in accordance with relative benefits received.

Finding

3. Internal Service Fund Working Capital Reserves Exceed Allowable Amounts (Repeat)

Genesee 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, 2015.

Genesee 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, 2015 financial statements, the County had accumulated excess balances for numerous internal service funds.

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 Genesee County's Internal Service Funds for the Year Ended September 30, 2015:

Fund	A-87 Adjusted Retained Earnings (A)	60-Day Operating Expenses (B)	Excess (C) (A – B)	Months of Excess (D) ((C / B) x 2)
Pharmaceutical	\$2,139,808	\$1,868,812	\$270,996	0.3
Copier	\$236,251	\$18,633	\$217,618	23.4
Microfilm	\$85,273	\$12,744	\$72,529	11.4
Corporation Counsel	\$347,337	\$75,085	\$272,252	7.3
Unemployment Benefits	\$621,112	\$39,861	\$581,251	29.2

Reductions are needed to achieve compliance with Federal cost principles for the funds above with excess working capital reserves. This was also noted in our FYE 2013 audit for the Copier, Corporation Counsel, and Unemployment Funds.

Recommendation

We again recommend that Genesee 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

4. Fixed Amount Award to Subrecipient Not Allowed Under Applicable Cost Principles

The Health Department used a fixed amount award to reimburse a subrecipient for WIC Program services rather than supported actual costs as required by the applicable Federal cost principles.

OMB Circular A-87 (located at 2 CFR 225), Appendix A, states the following with respect to allowable cost and the composition of costs:

C. Basic Guidelines

1. To be allowable under Federal awards, costs must meet the following general criteria:

b. Be allocable to Federal awards...

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.

D. Composition of Cost

1. 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.

The Health Department's Agreement with Bendle Public Schools require the subrecipient to provide WIC Program services at the Bendle Health Center. The Health Department agreed to reimburse the subrecipient a fixed rate per month per WIC participant. The rates, however, have not been supported as being the actual cost of providing the services for the subrecipient, and are therefore not in compliance with the requirements of OMB Circular A-87, which represent the applicable Federal cost principles during the audit period for the subrecipient. Additionally, for the one month invoice reviewed, the Health Department paid a rate of \$16.375 per participant compared to the contracted rate of \$13.11.

Recommendation

We recommend that the Health Department amend subcontracts to ensure payment terms comply with applicable Federal cost principles, and monitor subrecipients to ensure payments are for allowed costs that are adequately supported and in compliance with Federal cost principles. We recommend the Health Department consider the Federal Grant Reforms contained at 2 CFR 200.332 and 200.201 (applicable to awards after FYE 2015) whereby fixed amount subawards are permissible with prior written approval up to the Simplified Acquisition Threshold (\$150,000) under certain specific conditions.

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 \$1,824,903, \$36,522, and \$282,864; respectively. The attached Statements of Grant Program Revenues and Expenditures show the budgeted, reported, and allowable costs. The audit made adjustments but none affected grant funding.

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

	BUDGETED	REPORTED	AUDIT ADJUSTMENT	ALLOWABLE
REVENUES:				
MDHHS Grant	\$1,862,297	\$1,824,903 ¹		\$1,824,903
Fees & Collections - 1st & 2nd Party	\$0	\$35		\$35
Fees & Collections - 3rd Party	\$0	\$1,471		\$1,471
Local Funds - Other	\$12,571	\$0		\$0
TOTAL REVENUES	\$1,874,868	\$1,826,409	\$0	\$1,826,409
EXPENDITURES:				
Salary & Wages	\$894,755	\$829,181		\$829,181
Fringe Benefits	\$432,889	\$489,818		\$489,818
Contractual	\$63,102	\$48,468		\$48,468
Supplies & Materials	\$26,034	\$28,021		\$28,021
Travel	\$5,780	\$659		\$659
Communication	\$4,692	\$4,417		\$4,417
Other	\$12,273	\$14,565		\$14,565
Indirect Costs	\$435,343	\$411,280		\$411,280
TOTAL EXPENDITURES	\$1,874,868	\$1,826,409	\$0	\$1,826,409

¹ Actual MDHHS payments.

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

	BUDGETED	REPORTED	AUDIT ADJUSTMENT	ALLOWABLE
REVENUES:				
MDHHS Grant	\$63,442	\$36,522 ¹		\$36,522
TOTAL REVENUES	\$63,442	\$36,522	\$0	\$36,522
EXPENDITURES:				
Contractual	\$58,000	\$34,407		\$34,407
Other	\$2,000	\$700		\$700
Indirect Costs	\$3,442	\$1,415		\$1,415
TOTAL EXPENDITURES	\$63,442	\$36,522	\$0	\$36,522

¹ Actual MDHHS payments.

**Genesee 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	\$282,864	\$282,864 ¹		\$282,864
Fees & Collections - 1st & 2nd Party	\$55,100	\$2,816		\$2,816
Fees & Collections - 3rd Party	\$45,000	\$93,234		\$93,234
Federal Cost Based Reimbursement	\$188,785	\$197,185		\$197,185
Local Funds - Other	\$100,000	\$19,718	(\$705) ²	\$19,013
TOTAL REVENUES	\$671,749	\$595,817	(\$705)	\$595,112
EXPENDITURES:				
Salary & Wages	\$234,418	\$239,712	(\$705) ²	\$239,007
Fringe Benefits	\$138,262	\$108,431		\$108,431
Contractual	\$17,000	\$11,207		\$11,207
Supplies & Materials	\$57,675	\$66,496		\$66,496
Travel	\$3,000	\$115		\$115
Communication	\$4,500	\$3,746		\$3,746
Other	\$1,200	\$1,807		\$1,807
Indirect Costs	\$121,621	\$108,528		\$108,528
Other Costs Distributions	\$94,073	\$55,775		\$55,775
TOTAL EXPENDITURES	\$671,749	\$595,817	(\$705)	\$595,112

¹ Actual MDHHS payments.

² Over recorded Salary & Wages for PPE 8/14/2015 (Finding 1)

Corrective Action Plan

Finding Number: 1

Page Reference: 3

Finding: Non-Compliant Family Planning Salaries and Fringes Distribution

The Health Department did not properly document and allocate Family Planning Program employees' salaries and fringes for employees working on multiple activities in accordance with OMB Circular A-87.

Recommendation: Adopt policies and procedures to ensure that all salary and fringe distributions are based on records that accurately reflect the work performed as required by 2 CFR 200.

Comments: Genesee County Health Department used a historical formula that was audited numerous times without concern.

Corrective Action: Tighten time frames for submission of personal activity reports so that the HR Department can calculate salary and fringe benefit allocations with minimal errors. Also, allocate PTO in the same ratio in relation to personal activity reports submitted.

Anticipated

Completion Date: Completed and applied by FYE 2017.

MDHHS Response: None.

Corrective Action Plan

Finding Number: 2

Page Reference: 4

Finding: Indirect Cost Allocation Inaccuracies

The Health Department did not accurately compute the indirect cost allocations resulting in a misstatement of indirect costs for benefitting programs.

Recommendation: Implement policies and procedures to ensure that all indirect costs are allocated based on actual and allowable expenditures, and in accordance with relative benefits received.

Comments: The indirect rate calculation had been audited and approved by MDHHS for a number of years and was followed in the current fiscal year.

Corrective Action: Genesee County Health Department will calculate the indirect rate based on total expenditures of all programs and allocated to each based on total expenditures.

Anticipated

Completion Date: Completed and applied by FYE 2017.

MDHHS

Response: Verify that only the Direct Expenditures for the benefitting programs are used as the distribution base and then allocated based on Direct Expenditures.

Corrective Action Plan

Finding Number: 3

Page Reference: 6

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

Genesee 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, 2015.

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: None.

Corrective Action: Beginning FYE 2016 several internal service funds were restructured, which includes: Building and Grounds, Controller, Human Resources, Corporation Counsel, and Purchasing. The funds for these departments were eliminated and are now accounted for as General Fund departments. The costs are allocated through the cost allocation plan eliminating the ability for the funds to accumulate working capital reserves or deficits. Beginning in FYE 2017 the IT department costs will be allocated through the cost allocation plan with the same intent of not accumulating a reserve or deficit, although will continue to be accounted for in a separate fund specific to IT.

Anticipated

Completion Date: Completed on 10/01/2016.

MDHHS Response: None.

Corrective Action Plan

Finding Number: 4

Page Reference: 8

Finding: Fixed Amount Award to Subrecipient Not Allowed Under Applicable Cost Principles

The Health Department used a fixed amount award to reimburse a subrecipient for WIC Program services rather than supported actual costs as required by the applicable Federal cost principles.

Recommendation: Amend subcontracts to ensure payment terms comply with applicable Federal cost principles, and monitor subrecipients to ensure payments are for allowed costs that are adequately supported and in compliance with Federal cost principles. Consider the Federal Grant Reforms contained at 2 CFR 200.332 and 200.201 (applicable to awards after FYE 2015) whereby fixed amount subawards are permissible with prior written approval up to the Simplified Acquisition Threshold (\$150,000) under certain specific conditions.

Comments: Genesee County mirrored a contract that was approved in another county when establishing the subcontract.

Corrective Action: Genesee County Health Department will seek approval to reimburse the subrecipient of services on a fixed amount for the current fiscal year and each subsequent fiscal year.

Anticipated

Completion Date: 9/30/2017

MDHHS Response: None.

Comments and Recommendations

1. Not Billing Family Planning 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 ten encounters, we noted two instances where the Health Department did not properly bill clients based on their ability to pay. The first client had a family income and size that was below 100% of the FPL (100% discount, 0% payment) but the Health Department billed the client as if family income and size was between 151% - 200% of the FPL (50% discount, 50% payment). The second client had a family income and size that was between 151% - 200% of the FPL (50% discount, 50% payment) but the Health Department billed the client as if family income and size was between 101% - 150% of the FPL (75% discount, 25% payment).

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:

In one instance, a Genesee County Health Department employee included Supplemental Security Income for the patient's child in the total family income

amount resulting in applying a 50% discount instead of a 100% discount. The second instance appears to have been a timing issue for not using the correct effective sliding fee scale.

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 13 third party billings, we noted one instance where the Health Department billed a third party payer a different amount than what is stated on the schedule of fees.

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:

Reiterate to staff the importance of accuracy in billing and provide additional training if necessary. Also, have management review electronic medical record fee schedules for accuracy as well to reduce errors.

3. Lack of a Cost Analysis for Establishing Family Planning Program Fees (Repeat)

The Health Department did not use a 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 did not perform a cost analysis to develop their schedule of fees used during the fiscal year under review. This was also cited in our FYE 2013 audit report. The response to that audit report was: "Since the audit fieldwork, the Health Department has completed two cost studies and is using the gathered information to set a more appropriate fee schedule." The Health Department performed a cost study in May 2013 but did not continue the process of developing a schedule of fees based on the information gathered. The Health Department has continued to use the same Fee Schedule for multiple years with no proper detailed cost analysis to determine the cost of providing each distinct service and supply. Accordingly, it cannot be determined if the schedule of fees is designed to recover the cost of providing each distinct service and supply.

Recommendation

We recommend that the Health Department conduct a cost analysis to determine the cost of providing each distinct service and supply, and set fees based on the cost analysis to ensure the schedule of fees is designed to recover the reasonable cost of providing services, or a percentage of costs as approved by the administrative board as permitted in the Michigan Title X Family Planning Program Standards and Guidelines Manual.

Management Response:

The Health Department completed a time study in FY14/15, however, an error was made in the study and it would have resulted in a decrease in the fees. A recommendation was made by MDHHS that an increase to the fees was needed so the time study was discarded to reevaluate the data. The reevaluation started mid-2015, but was postponed further due to the onset of the Flint water crisis. This July 2017, the Family Planning program will reevaluate fees.