



RICK SNYDER
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF HEALTH AND HUMAN SERVICES
LANSING

NICK LYON
DIRECTOR

May 11, 2017

Cathryn Beer, MPA, CPA, CGMA, Health Officer
Western U.P. District Health Department
540 Depot
Hancock, MI 49930

Dear Ms. Beer:

Enclosed is our final report from the Michigan Department of Health and Human Services audit of the Western U.P. District 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 and Objectives; Scope and Methodology; Conclusions, Findings, and Recommendations; Statement of Grant Program Revenues and Expenditures; Corrective Action Plans; and Comment and Recommendation. The Corrective Action Plans and Comment and Recommendation include the agency's response to the Preliminary Analysis.

As noted in Finding 2, funds are due back related to the Medicaid Outreach Program. Please remit a check payable to the State of Michigan for \$914 to the following address by June 9, 2017:

Cash Receipting
PO Box 30437
Lansing, MI 48933

Thank you for the cooperation extended throughout this audit process.

Sincerely,


Debra S. Hallenbeck, Director, Audit Division
Bureau of Audit, Reimbursement and Quality Assurance

Enclosure

cc: Pam Myers, Director, Bureau of Audit, Reimbursement and Quality Assurance
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
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Audit Report

Western U.P. District Health Department
Family Planning Program

October 1, 2014 – September 30, 2015



Bureau of Audit, Reimbursement, and Quality Assurance

Audit Division

May 2017

TABLE OF CONTENTS

	Page
Description of Agency	1
Funding Methodology	1
Purpose and Objectives.....	1
Scope and Methodology	2
 <u>Conclusions, Findings, and Recommendations</u>	
<u>Financial Reporting</u>	2
1. Total Actual Program Expenditures Not Reported on Financial Status Report.....	3
2. Indirect Cost Allocation Inaccuracies	3
3. Fees and Collections Not Reported on Cash Basis (Repeat)	5
4. Lack of a Cost Analysis for Establishing Family Planning Program Fees (Repeat) .	6
<u>MDHHS Share of Cost</u>	7
Statement of Grant Program Revenues and Expenditures – Family Planning.....	8
Corrective Action Plans.....	9
Comment and Recommendation	13

DESCRIPTION OF AGENCY

The Western Upper Peninsula District Health Department (Health Department) is governed under the Public Health Code, Act 368 of 1978. The Health Department is a Special Revenue Fund of Houghton County, which is the reporting entity, and the administrative office is located in Hancock, Michigan. The Health Department operates under the legal supervision and control of the Board of Health, which is comprised of commissioners of Houghton, Baraga, Ontonagon, Keweenaw and Gogebic Counties. The Health Department provides community health program services to the residents of Houghton, Baraga, Ontonagon, Keweenaw and Gogebic 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 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 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 cost 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 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 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 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: total actual program expenditures not reported on the Financial Status Report (Finding 1), indirect cost allocation inaccuracies (Finding 2), fees and collections not reported on cash basis (Finding 3) (repeat), and lack of a cost analysis for establishing Family Planning Program fees (Finding 4) (repeat).

Finding

1. Total Actual Program Expenditures Not Reported on Financial Status Report

The Health Department did not report total actual program expenditures on the Family Planning Program 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.

OMB Circular A-87 (located at 2 CFR 225), Appendix A, Section D. Composition of Cost defines total cost as follows:

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 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.

The Health Department had depreciation from three buildings totaling \$2,669 that was not recorded on the Health Department's financial records or on the Family Planning Program FSR.

Recommendation

We recommend the Health Department comply with the MDHHS Grant Agreement and report total actual program expenditures regardless of the source of funds.

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...*
- 3. Allocable costs*
 - b. All activities which benefit from the governmental unit's indirect cost...will receive an appropriate allocation of indirect costs.*

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.*

OMB Circular A-87 (located at 2 CFR 225), Appendix B, Section 15. Equipment and other capital expenditures, Section b. (5) states the following with respect to recovering the cost of capital outlay:

Equipment and other capital expenditures are unallowable as indirect costs. However, see section 11 of this appendix, Depreciation and use allowance, for rules on the allowability of use allowances or depreciation on buildings, capital improvements, and equipment.

In our review of the indirect cost allocation computation, we noted the following inaccuracies:

- 1.) The Health Department used an indirect cost allocation rate that was not based on actual final numbers when reporting indirect expenditures on program FSRs.
- 2.) The Health Department included capital outlay expenditures in the Agency Support cost pool, rather than an allowable depreciation amount.
- 3.) The Health Department had depreciation from three buildings applicable to the Agency Support cost pool that was not included.

After the correction of the above inaccuracies, we determined that agency support indirect costs were understated for the Family Planning Program. Allowable costs for the Family Planning Program increased by \$509 as a result of the correction of inaccuracies.

Adjustments reflecting the change in indirect costs for the Family Planning Program are shown on the attached Statement of Grant Program Revenues and Expenditures. Since the MDHHS Grant was already fully expended, there is no impact on MDHHS funding.

The correction of the indirect cost allocation, however, has impacted MDHHS's obligation for the following program and funds are due back to MDHHS as follows:

Program	Impact on MDHHS Obligation
Medicaid Outreach	(\$914)

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. Fees and Collections Not Reported on Cash Basis (Repeat)

The Health Department prepared its year end journal entry of fees and collections on an accrued basis, rather than on the cash basis as required.

The Financial Status Report (FSR) Form Preparation Instructions state:

I. Introduction:

The Financial Status Report is to be prepared reporting expenditures on a cash or accrued basis and revenue on an accrued basis, with the exception of fees which should be reported on a cash basis as received.

IV. Form Preparation:

L. Expenditures Current Period Column

15. Fees and Collections – Fees and collections received during the current report period. Fees and collections represent funds, which the program earns through its operation and retains for operational purposes. This would include fees for services, payments by third parties (insurance, patient collections, Medicaid, etc.) and any other collections.

The Health Department reported fees and collections received from private payments during September 2015 for the Family Planning Program on an accrued basis instead of cash basis. The Health Department prepared a preliminary financial statement as of September 30, 2015 using the August 31, 2015 journal entry amounts for fees and collections from private payments. When the financial statement was finalized, an adjusting entry was not made to ensure cash basis reporting.

Recommendation

We recommend that the Health Department implement policies and procedures to ensure fees and collections are properly reported in accordance with FSR Form Preparation Instructions.

Finding

4. 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: "The Health Department installed a new electronic medical records system later than planned. Billing and activity tracking began on the new system in January 2014. The Health Department plan is to utilize data from this system to develop an accurate cost analysis and adjust fees accordingly." The Health Department, however, continued to use the January 2013 Fee Scale until recently changed effective October 1, 2016.

The Health Department's Administrative Policy Manual on Fee Setting (revised 06/06/16) states, "Fees shall be reviewed annually against actual and expected program costs. Division directors will provide data on expected service volumes for the year and will provide concerns regarding fees as barriers to access of services. Fees may be reduced to address these barriers, but should generally cover at least fifty

percent of costs...Charges for drugs or biologics will be cost plus a reasonable carrying charge.”

Prior to the October 1, 2016 fee scale change, it appears the Health Department reviewed the cost of supplies. Additionally, the Health Department compared total billed charges (to insurance companies and self-payers) to total expenditures for the 12 months ended June 30, 2016, and also identified payments paid. The Health Department determined that billed amounts represented 47% of costs, and that actual payments were 35% of billed amounts. This process only resulted in a few changes to lab and supplies fees, and no changes to visit fees from the 2013 fee scale.

The process used by the Health Department in setting fees does not ensure that the schedule of fees is designed to recover the reasonable cost of providing services. First, the use of billed amounts is not appropriate since this would reflect discounted bills based on the sliding fee scale. Accordingly, this would not show the potential recovery from the schedule of fees. Secondly, there has been no 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.

MDHHS SHARE OF COST AND BALANCE DUE

Objective 2: To determine the MDHHS share of cost 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 \$56,868. The attached Statement of Grant Program Revenues and Expenditures show the budgeted, reported, and allowable costs. The audit made adjustments but none affected the Family Planning Program grant funding.

**Western U.P. 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	\$56,868	\$56,868 ¹		\$56,868
Fees & Collections - 1st & 2nd Party	\$5,000	\$5,685		\$5,685
Fees & Collections - 3rd Party	\$40,000	\$46,024		\$46,024
Federal Cost Based Reimbursement	\$90,000	\$103,711		\$103,711
Local Funds - Other	\$35,288	\$7,133	\$509 ²	\$7,642
TOTAL REVENUES	\$227,156	\$219,421	\$509	\$219,930
EXPENDITURES:				
Salary & Wages	\$98,338	\$94,600		\$94,600
Fringe Benefits	\$52,121	\$47,127		\$47,127
Supplies & Materials	\$34,550	\$28,228		\$28,228
Travel	\$6,000	\$6,249		\$6,249
Communication	\$1,800	\$1,688		\$1,688
Space Costs	\$19,000	\$18,177		\$18,177
All Other	\$15,500	\$14,144		\$14,144
Indirect Costs	\$43,561	\$52,922	\$509 ²	\$53,431
Other Costs Distributions	(\$43,714)	(\$43,714)		(\$43,714)
TOTAL EXPENDITURES	\$227,156	\$219,421	\$509	\$219,930

¹ Actual MDHHS payments.

² Indirect Cost Allocation Inaccuracies (Finding 2)

Corrective Action Plan

Finding Number: 1

Page Reference: 3

Finding: Total Actual Program Expenditures Not Reported on Financial Status Report

The Health Department did not report total actual program expenditures on the Family Planning Program Financial Status Report (FSR).

Recommendation: Comply with the MDHHS Grant Agreement and report total actual program expenditures regardless of the source of funds.

Comments: WUPHD agrees with this finding.

Corrective Action: WUPHD has hired additional financial staff to ensure timeliness and accuracy of reporting. Training, crosschecking, and review will now be an integral procedure for annual final program reporting. The goal will be to have final general ledger entries completed prior to reporting deadlines.

Anticipated

Completion Date: Final FSR 09/30/2017

MDHHS Response: None.

Corrective Action Plan

Finding Number: 2

Page Reference: 3

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: WUPHD agrees with this finding.

Corrective Action: WUPHD has hired additional financial staff to ensure timeliness and accuracy of reporting. Training, crosschecking, and review will now be an integral procedure for annual final program reporting. The goal will be to have final general ledger entries completed prior to reporting deadlines.

Anticipated

Completion Date: Final FSR 09/30/2017

MDHHS Response: None.

Corrective Action Plan

Finding Number: 3

Page Reference: 5

Finding: Fees and Collections Not Reported on Cash Basis (Repeat)

The Health Department prepared its year end journal entry of fees and collections on an accrued basis, rather than on the cash basis as required.

Recommendation: Implement policies and procedures to ensure fees and collections are properly reported in accordance with FSR Form Preparation Instructions.

Comments: WUPHD agrees with this finding.

Corrective Action: WUPHD has hired additional financial staff to ensure timeliness and accuracy of reporting. Training, crosschecking, and review will now be an integral procedure for annual final program reporting. The goal will be to have final general ledger entries completed prior to reporting deadlines.

Anticipated

Completion Date: Final FSR 09/30/2017

MDHHS Response: None.

Corrective Action Plan

Finding Number: 4

Page Reference: 5

Finding: 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.

Recommendation: 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.

Comments: WUPHD agrees with this finding.

Corrective Action: Implement cost analysis/cost allocation practices according to MDHHS guidance and utilizing recommended worksheets. Conduct time study for Family Planning staff on a routine basis to determine proper cost allocation.

Anticipated

Completion Date: Time study initiated 04/2017; Analysis and fee review completed by 10/01/2017.

MDHHS Response: None.

Comment and Recommendation

1. Medicaid Cost Based Reimbursement Carryforward Amount Incorrectly Calculated

The Health Department did not accurately calculate the amount of Medicaid cost Based Reimbursement (MCBR) being carried forward to FYE 2016.

According to the Tim Becker Memo dated August 25, 2014:

The following applies only to LPHD's receiving multiple year Medicaid cost-based reimbursements within one year (FYE 2014 and/or 2015 only) whereby cash basis reporting of Medicaid cost-based reimbursements in combination with other revenues exceeds expenditures. The LPHD must:

- 2.) Detail any Medicaid cost-based reimbursements received and not reported on the FSR because reporting of such would result in total revenues exceeding total expenditures for a program in an attachment to the FSR with a stated assurance that the unreported reimbursements will be placed in the LPHD's Restricted Fund Balance and will only be spent in future periods in benefit of the program in which the funds were earned.*

During FYE 2015 the Health Department received a total of \$136,558 in MCBR, applied \$103,711 to the current year Family Planning Program expenses, and should be placing \$32,847 in a restricted fund account to be used only in support of the Family Planning Program in future fiscal periods. However, the MCBR Tracking Form indicates that \$140,064 of MCBR was received and \$36,353 is being placed in a restricted fund balance. Even though no exceptions are noted on the amount reported on the FSR, the calculation to determine the FYE 2016 carryforward amount was inaccurate and has resulted in more restricted funds reported than actual.

Recommendation

We recommend that the Health Department adjust the amount of MCBR placed in the restricted fund balance and revise the reporting form to reflect the actual amount of carryforward to be spent in future periods.

Management Response:

WUPHD agrees with this recommendation and will amend the reporting form.