



STATE OF MICHIGAN

DEPARTMENT OF HEALTH AND HUMAN SERVICES  
LANSING

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DIRECTOR

May 17, 2017

Linda Yaroch, Health Officer  
Health Department of Northwest Michigan  
220 W. Garfield St.  
Charlevoix, MI 49720

Dear Ms. Yaroch:

Enclosed is our final report from the Michigan Department of Health and Human Services audit of the Health Department of Northwest Michigan 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.

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 Dobyne Dunbar, Manager, Division of Maternal and Infant Health  
Deanna Charest, Manager, Reproductive and Preconception Health Unit  
Steve Utter, Financial Analyst, Reproductive and Preconception Health Unit  
Bryce Wooton, Auditor, Audit Division  
Andrea Pierce, Finance Supervisor, Health Department of Northwest Michigan

# Audit Report

Health Department of Northwest Michigan  
Family Planning Program

October 1, 2014 – September 30, 2015



Bureau of Audit, Reimbursement, and Quality Assurance

Audit Division

May 2017

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## **DESCRIPTION OF AGENCY**

The Health Department of Northwest Michigan (Health Department) is governed under the Public Health Code, Act 368 of 1978. The Health Department is a component unit of Charlevoix County, which is the reporting entity, and the administrative office is located in Charlevoix, Michigan. The Health Department operates under the legal supervision and control of the Board of Health, which is comprised of commissioners from Antrim, Charlevoix, Emmet and Otsego Counties. The Health Department provides community health program services to the residents of Antrim, Charlevoix, Emmet and Otsego 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: fees and collections not reported on cash basis (Finding 1) (Repeat), non-compliant salaries and fringe benefits distributions (Finding 2).

## **Finding**

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

The Health Department prepared its Financial Status Report (FSR) reporting fees and collections (including Medicaid Cost Based Reimbursement (MCBR)), 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.*

MDHHS allowed an exemption from cash basis reporting for certain Medicaid cost-based reimbursements, but disclosures and restrictions were required according to an August 25, 2014 MDHHS communication that stated the following:

*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.*

The Health Department reported fees and collections for the Family Planning Program on an accrued basis instead of cash basis. This was also noted in the past three MDHHS audits. The most recent response to this finding was, "The Health Department will make an adjusting journal entry on September 30 for fees to be reflected on a cash basis." The Health Department did not make an adjusting journal entry on September 30, 2015 and recorded fees and collections of \$77,437 on the FSR when actual cash received for services performed in FYE 2015 totaled \$74,747 (1<sup>st</sup>, 2<sup>nd</sup>, and 3<sup>rd</sup> party, excluding MCBR). Therefore, fees and collections (excluding MCBR) were overstated on the FSR by \$2,690.

Additionally, the Health Department did not report MCBR on the cash basis, and there was no attachment to the FSR with the required assurance on the unreported reimbursements. During FYE 2015 the Health Department received a total of \$34,521 in Family Planning MCBR but only reported \$18,059 on the final FSR with no attachment to the FSR to identify the amount of MCBR being carried forward to FYE 2016. The Health Department had \$16,462 of MCBR that was not reported but yet \$17,738 of Local Funds was reported on the FYE 2015 final FSR. The Health Department could have potentially reported all MCBR received during FYE 2015.

Adjustments are included on the attached Statement of Grant Program Revenues and Expenditures to reflect the cash basis amount of fees and collections and MCBR payments.

### **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**

#### **2. Non-Compliant Salary & Wages and Fringe Benefits Distributions**

The Health Department improperly used predetermined percentages to distribute salaries and wages of some employees, and did not adjust costs charged to the Family Planning Program to reflect the activity actually performed as required by OMB Circular A-87. Additionally, fringe benefits were not allocated to Federal awards in a manner consistent with the allocation of salaries and wages.

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.*
- (e) *Budget estimates or other distribution percentages determined before the services are performed do not qualify as support for charges to Federal awards but may be used for interim accounting purposes, provided that:*
  - (ii) *At least quarterly, comparisons of actual costs to budgeted distributions based on the monthly activity reports are made. Costs charged to Federal awards to reflect adjustments made as a result of the activity actually performed may be recorded annually if the quarterly comparisons show the differences between budgeted and actual costs are less than ten percent.*
- (6) *Substitute systems for allocating salaries and wages to Federal awards may be used in place of activity reports. These systems are subject to approval if required by the cognizant agency. Such systems may include, but not limited to, random moment sampling, case counts, or other quantifiable measures of employee effort.*

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

- (5) *...Such benefits, whether treated as indirect costs or as direct costs, shall be allocated to Federal awards and all other activities in a manner consistent with the pattern of benefits attributable to the individuals or group(s) of employees whose salaries and wages are chargeable to such Federal awards and other activities.*

The Health Department did not provide adequate supporting documentation for the direct allocation of salaries and wages to the Family Planning Program for two employees working in the Billing Department. The Health Department directly allocates 11% of one employee's and 31% of the other employee's time to the Family Planning Program every pay period, unless the employee advises the payroll specialist otherwise. The 11% and 31% being allocated was said to be determined by historical time studies, which could not be provided. However, directly allocating employees' time on a predetermined percentage based on historical time studies is a substitute system for allocating salaries and wages, which requires approval, for which there was none. Any employee working on multiple Federal awards that is directly charged must have proper supporting documentation that reflects the actual time spent working on the Federal awards.



The Health Department's fringe benefit expense of Health Insurance is only being allocated once a month based on the first pay period's encounter reports. Life, Dental, and Vision Insurances are being allocated once a month based on the second pay period's encounter reports. The actual monthly activity is not being fully considered in the allocation of fringe benefits for Health, Life, Dental, and Vision, so the allocations are not consistent with how salaries and wages are allocated to Federal awards.

### **Recommendation**

We recommend that the Health Department adopt policies and procedures to ensure that all salary and fringe benefit distributions are based on records that accurately reflect the work performed, and any use of predetermined percentages are only used for interim accounting purposes with appropriate adjustments as required by 2 CFR 200.430(i)(1)(viii).

## **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 \$60,291. The attached Statement of Grant Program Revenues and Expenditures show the budgeted, reported, and allowable costs. The audit made adjustments but none affected Family Planning Program grant funding.

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

	BUDGETED	REPORTED	AUDIT ADJUSTMENT	ALLOWABLE
<b>REVENUES:</b>				
MDHHS Grant	\$60,291	\$60,291 <sup>1</sup>		\$60,291
Fees & Collections - 1st & 2nd Party	\$10,000	\$7,001	(\$2,522) <sup>2</sup>	\$4,479
Fees & Collections - 3rd Party	\$85,000	\$70,436	(\$168) <sup>3</sup>	\$70,268
Federal Cost Based Reimbursement	\$20,768	\$18,059	\$16,462 <sup>4</sup>	\$34,521
Local Funds - Other	\$36,501	\$17,738	(\$13,772) <sup>2,3,4</sup>	\$3,966
<b>TOTAL REVENUES</b>	<b>\$212,560</b>	<b>\$173,526</b>	<b>\$0</b>	<b>\$173,526</b>
<b>EXPENDITURES:</b>				
Salary & Wages	\$118,306	\$95,736		\$95,736
Fringe Benefits	\$49,689	\$39,762		\$39,762
Contractual	\$0	\$675		\$675
Supplies & Materials	\$35,000	\$43,140		\$43,140
Travel	\$4,001	\$5,001		\$5,001
Communication	\$2,000	\$1,802		\$1,802
Space Costs	\$8,000	\$3,727		\$3,727
All Other	\$3,000	\$3,849		\$3,849
Indirect Costs	\$27,719	\$17,734		\$17,734
Other Costs Distributions	(\$35,155)	(\$37,901)		(\$37,901)
<b>TOTAL EXPENDITURES</b>	<b>\$212,560</b>	<b>\$173,526</b>	<b>\$0</b>	<b>\$173,526</b>

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

<sup>2</sup> Remove accrued fees to report on the cash basis as required (Finding 1)

<sup>3</sup> Remove accrued fees to report on the cash basis as required (Finding 1)

<sup>4</sup> Add remaining MCBR to report on the cash basis as required (Finding 1)

## Corrective Action Plan

**Finding Number:** 1

**Page Reference:** 3

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

The Health Department prepared its Financial Status Report (FSR) reporting fees and collections (including Medicaid Cost Based Reimbursement (MCBR)), 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:** None.

**Corrective Action:** Health Department of Northwest Michigan's staff commenced mid-year 2016 reporting fees and collections using the cash basis on FSR's and is continuing to do so for future years.

**Anticipated**

**Completion Date:** Completed during 2016.

**MDHHS Response:** None.

## Corrective Action Plan

**Finding Number:** 2

**Page Reference:** 4

**Finding:** Non-Compliant Salary & Wages and Fringe Benefits Distributions

The Health Department improperly used predetermined percentages to distribute salaries and wages of some employees, and did not adjust costs charged to the Family Planning Program to reflect the activity actually performed as required by OMB Circular A-87. Additionally, fringe benefits were not allocated to Federal awards in a manner consistent with the allocation of salaries and wages.

**Recommendation:** Adopt policies and procedures to ensure that all salary and fringe benefit distributions are based on records that accurately reflect the work performed, and any use of predetermined percentages are only used for interim accounting purposes with appropriate adjustments as required by 2 CFR 200.430(i)(1)(viii)..

**Comments:** None.

**Corrective Action:** Health Department of Northwest Michigan will require any staff working on the Family Planning Program to record their work performed each pay and will use this information to calculate the amount of time charged to the Family Planning Program rather than a predetermined percentage. All benefits will be allocated to federal awards in a manner consistent with the allocations of salaries and wages.

**Anticipated**

**Completion Date:** July 2017.

**MDHHS Response:** None.

## Comment and Recommendation

### 1. 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 14 third party billings, we noted three instances where the Health Department billed a third party payer a different amount than what is stated on the schedule of fees. All three instances the Health Department charged the third party payer at 340B rates. When billing to Medicaid, the Health Department is required to bill only up to the 340B purchase price; only if supplies were purchased through the 340B program. However, when billing to commercial insurances the Health Department must bill at the total amount of charges according to the schedule of fees with no application of discounts.

### **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:**

The computer system is only capable of using the 340B rate for Medicaid at the time the service is originally entered. Manual intervention is required to update the fee to the 340B rate should the service be originally billed to commercial insurance and then transferred to Medicaid.

Billing procedures have been updated to reflect that when a commercial insurance denies payment and the claim is then billed to Medicaid, the fee for 340B supplies needs to be manually adjusted to the 340B rate.

In addition, we have added a validation rule in our clearinghouse to issue a warning to alert the biller to verify that 340B prices were used for Medicaid claims when they are uploaded as Medicaid secondary.