



RICK SNYDER  
GOVERNOR

STATE OF MICHIGAN  
DEPARTMENT OF COMMUNITY HEALTH  
OFFICE OF AUDIT  
400 S. PINE; LANSING, MI 48933

NICK LYON  
DIRECTOR

September 6, 2017

Marcus Cheatham, Health Officer  
Mid-Michigan District Health Department  
615 N. State St., Suite 2  
Stanton, Michigan 48888-9702

Dear Mr. Cheatham:

Enclosed is our final report from the Michigan Department of Health and Human Services (MDHHS) audit of the Mid-Michigan District Health Department Family Planning and WIC Programs for the period October 1, 2015 through September 30, 2016.

The final report contains the following: description of agency; funding methodology; purpose; objectives; scope and methodology; conclusions, findings and recommendations; Statements of MDHHS Grant Program Revenues and Expenditures; Cost vs. Amounts Billed for Supplies and Services Schedule; Corrective Action Plan; and Comments and Recommendations. The conclusions, findings, and recommendations are organized by audit objective. The Corrective Action Plan, and Comments and Recommendations include the agency's paraphrased response to the Preliminary Analysis.

Thank you for the cooperation extended throughout this audit process.

Sincerely,

A handwritten signature in cursive script that reads "Shannah Havens".

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

Enclosure

cc: Stan Bien, Director, WIC Division  
Paulette Dobynes Dunbar, Manager, Division of Maternal and Infant Health  
Deanne Charest, Manager, Reproductive and Preconception Health Unit  
Debra Hallenbeck, Director, Population Health and Community Services Program  
Bryce Wooton, Auditor, Population Health and Community Services Program  
Matthew Tompkins, Auditor, Population Health and Community Services Program  
Steve Utter, Financial Analyst, Division of Family and Community Health

# Audit Report

Mid-Michigan District Health Department  
WIC & Family Planning Programs

October 1, 2015 – September 30, 2016



Bureau of Audit, Reimbursement, and Quality Assurance

Audit Division  
September 2017

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## **DESCRIPTION OF AGENCY**

The Mid Michigan 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 Montcalm County, which is the reporting entity, and the administrative office is located in Stanton, Michigan. The Health Department operates under the legal supervision and control of the Board of Health, which is comprised of commissioners of the counties of Clinton, Gratiot, and Montcalm. The Health Department provides community health program services to the residents of these three counties.

## **FUNDING METHODOLOGY**

The Health Department services are funded from local appropriations, fees and collections, and grant programs administered through the Michigan Department of Health and Human Services (MDHHS), which consist of federal and state funds. MDHHS provides 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 Women, Infants, and Children (WIC) Program was funded by MDHHS Grant Funds, and Other Local Funds. 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 numbers 93.217 and 93.994, 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, 2015 through September 30, 2016. Our review procedures included the following:

- Reviewed the most recent Health Department Single Audit report for any WIC Program or Family Planning Program concerns.
- Reviewed the completed Subrecipient Questionnaire.
- Reconciled the WIC Program and Family Planning Program Financial Status Reports (FSRs) to the accounting records.
- Reviewed a sample of payroll expenditures.
- Tested a sample of expenditures for program compliance and adherence to policy and approval procedures.
- Reviewed building space/lease costs for proper reporting and compliance with Federal requirements.
- Reviewed indirect cost and other cost allocations for reasonableness, and an equitable methodology.
- Reviewed Family Planning billing and collection of fees, and collection of donations.

Our audit did not include a review of program content or quality of services provided.

## CONCLUSIONS, FINDINGS AND RECOMMENDATIONS

### FINANCIAL REPORTING

**Objective 1:** To assess the Health Department's effectiveness in reporting their WIC Program and Family Planning Program financial activity to MDHHS in accordance with applicable MDHHS requirements and agreements, applicable federal standards, and generally accepted accounting principles.

**Conclusion:** The Health Department generally reported its WIC Program and Family Planning Program financial activity to MDHHS in accordance with applicable MDHHS requirements and agreements, applicable federal standards, and generally accepted accounting principles. However, we identified the distribution of retirement is based on an inconsistent allocation methodology (Finding 1).

## **Finding**

### **1. Improper Allocation of Retirement Fringe Benefits**

The Health Department did not properly allocate employee retirement fringe benefits for employees working on multiple activities in accordance with 2 CFR Part 200.

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.*

Title 2 CFR 200.431 (c) states the following with respect to fringe benefits:

*The cost of fringe benefits in the form of employer contributions or expenses...must be allocated to Federal awards and all other activities in a manner consistent with the pattern of benefits attributable to the individuals or groups(s) of employees whose salaries and wages are chargeable to such Federal awards and other activities, and charged as direct or indirect costs in accordance with the non-Federal entity's accounting practices.*

The Health Department's costs for retirement fringe benefits is calculated by taking the employee's total gross monthly wage and multiplying it by the retirement contribution percentage. However, the allocation for the retirement contribution is allocated only on the last pay period of the month while salaries, wages and other fringe benefits are allocated bi-weekly.

In our review of retirement fringe benefit expenditures for March 2016, one employee who only charged time to the WIC program during the first pay period and not the last pay period in the month, was excluded in the retirement allocation to the WIC program. The current retirement contribution methodology does not properly reflect all employee activity for the month which could result in an overstatement or understatement of program expenditures.

## **Recommendation**

We recommend that the Health Department properly allocate employee retirement benefits and implement a consistent methodology for all fringe benefits to ensure actual expenditures are properly allocated as required by 2 CFR 200.

## **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, 2016, are \$658,405, \$110,292, and \$180,715; respectively. The attached Statements of Grant Program Revenues and Expenditures show the budgeted, reported, and allowable costs. The audit made adjustments but none affected the WIC Program or Family Planning Program grant funding.

**Mid-Michigan District Health Department  
WIC Resident Services  
Statement of Grant Program Revenues and Expenditures  
10/1/15 - 9/30/16**

	<b>BUDGETED</b>	<b>REPORTED</b>	<b>AUDIT ADJUSTMENT</b>	<b>ALLOWABLE</b>
<b>REVENUES:</b>				
MDHHS Grant	\$658,405	\$658,405 <sup>1</sup>		\$658,405
Fees & Collections - 1st & 2nd Party	\$100	\$0		\$0
Local Non-ELPHS	\$100	\$0		\$0
Local Funds - Other	\$536,731	\$311,882	(\$385) <sup>2</sup>	\$311,497
<b>TOTAL REVENUES</b>	<b>\$1,195,336</b>	<b>\$970,287</b>	<b>(\$385)</b>	<b>\$969,902</b>
<b>EXPENDITURES:</b>				
Salary & Wages	\$453,386	\$396,070		\$396,070
Fringe Benefits	\$204,024	\$173,974		\$173,974
Supplies & Materials	\$15,000	\$7,862		\$7,862
Travel	\$15,000	\$8,872		\$8,872
Communication	\$2,000	\$693		\$693
Space Costs	\$65,000	\$17,666		\$17,666
Other	\$5,000	\$4,377		\$4,377
Indirect Costs	\$170,926	\$138,481	(\$385) <sup>2</sup>	\$138,096
Other Costs Distributions	\$265,000	\$222,291		\$222,291
<b>TOTAL EXPENDITURES</b>	<b>\$1,195,336</b>	<b>\$970,287</b>	<b>(\$385)</b>	<b>\$969,902</b>

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

<sup>2</sup> Over-Allocated Indirect Costs (Comment and Recommendation 4)



**Mid-Michigan District Health Department  
WIC Breastfeeding  
Statement of Grant Program Revenues and Expenditures  
10/1/15 - 9/30/16**

	<b>BUDGETED</b>	<b>REPORTED</b>	<b>AUDIT ADJUSTMENT</b>	<b>ALLOWABLE</b>
<b>REVENUES:</b>				
MDHHS Grant	\$110,292	\$110,292 <sup>1</sup>		\$110,292
Local Funds - Other	\$20,521	\$10,850	(\$47) <sup>2</sup>	\$10,803
<b>TOTAL REVENUES</b>	<b>\$130,813</b>	<b>\$121,142</b>	<b>(\$47)</b>	<b>\$121,095</b>
<b>EXPENDITURES:</b>				
Salary & Wages	\$61,113	\$58,573		\$58,573
Fringe Benefits	\$12,398	\$10,406		\$10,406
Supplies & Materials	\$1,000	\$415		\$415
Travel	\$9,000	\$3,003		\$3,003
Communication	\$1,500	\$1,038		\$1,038
Space Costs	\$5,800	\$4,052		\$4,052
Other	\$1,000	\$0		\$0
Indirect Costs	\$17,643	\$16,757	(\$47) <sup>2</sup>	\$16,710
Other Costs Distributions	\$21,359	\$26,899		\$26,899
<b>TOTAL EXPENDITURES</b>	<b>\$130,813</b>	<b>\$121,142</b>	<b>(\$47)</b>	<b>\$121,095</b>

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

<sup>2</sup> Over-Allocated Indirect Costs (Comment and Recommendation 4)

**Mid-Michigan District Health Department  
Family Planning Services  
Statement of Grant Program Revenues and Expenditures  
10/1/15 - 9/30/16**

	<b>BUDGETED</b>	<b>REPORTED</b>	<b>AUDIT ADJUSTMENT</b>	<b>ALLOWABLE</b>
<b>REVENUES:</b>				
MDHHS Grant	\$180,715	\$180,715 <sup>1</sup>		\$180,715
Fees & Collections - 1st & 2nd Party	\$20,000	\$8,031		\$8,031
Fees & Collections - 3rd Party	\$110,000	\$85,594		\$85,594
Federal Cost Based Reimbursement	\$50,000	\$48,460		\$48,460
Local Non-ELPHS	\$2,000	\$0		\$0
Other Non-ELPHS	\$20,000	\$0		\$0
Local Funds - Other	\$68,889	\$19,433	(\$153) <sup>2</sup>	\$19,280
<b>TOTAL REVENUES</b>	<b>\$451,604</b>	<b>\$342,233</b>	<b>(\$153)</b>	<b>\$342,080</b>
<b>EXPENDITURES:</b>				
Salary & Wages	\$184,896	\$156,921		\$156,921
Fringe Benefits	\$91,498	\$69,476		\$69,476
Supplies & Materials	\$64,000	\$41,433		\$41,433
Travel	\$7,500	\$6,778		\$6,778
Communication	\$200	\$32		\$32
Space Costs	\$40,000	\$6,566		\$6,566
Other	\$10,000	\$2,946		\$2,946
Indirect Costs	\$62,748	\$54,999	(\$153) <sup>2</sup>	\$54,846
Other Costs Distributions	(\$9,238)	\$3,081		\$3,081
<b>TOTAL EXPENDITURES</b>	<b>\$451,604</b>	<b>\$342,233</b>	<b>(\$153)</b>	<b>\$342,080</b>

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

<sup>2</sup> Over-Allocated Indirect Costs (Comment and Recommendation 4)

## Corrective Action Plan

**Finding Number:** 1

**Page Reference:** 3

**Finding:** Improper Allocation of Retirement Fringe Benefits

The Health Department did not properly allocate employee retirement fringe benefits for employees working on multiple activities in accordance with 2 CFR Part 200.

**Recommendation:** Properly allocate employee retirement benefits and implement a consistent methodology for all fringe benefits to ensure actual expenditures are properly allocated as required by 2 CFR 200.

**Comments:** The Health Department agrees that the fringe benefits should be allocated more accurately. Percent of effort will be consistently calculated just like the other benefits using one pay period instead of both pay periods in the month.

**Corrective Action:** The issue has been corrected to use the percent of effort for the entire pay period.

**Anticipated  
Completion Date:** August, 2017

**MDHHS Response:** None

## Comments and Recommendations

### 1. Direct Expenditure Not Reported in Fiscal Year Incurred

The MDHHS Grant Agreement 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."* Also, the MDHHS Grant Agreement stated that the period of agreement *"shall commence on October 1, 2015 and continue through September 30, 2016. This agreement is full force and effect for the period specified. The Department has the option to assume no responsibility for costs incurred by the Grantee prior to signing of this agreement."* According to 2 CFR 200.309, *"A non-Federal entity may charge to the Federal award only allowable costs incurred during the period of performance..."* During our review of direct expenditures of the WIC Program, we noted one expense that incurred was in August 2015 but was not paid until April 2016. We recommend that the Health Department implement policies and procedures to ensure proper and timely payments are made for costs incurred and that costs are reported in the period incurred.

**Management Response:** The Health Department agrees that all costs should be paid in the applicable year.

### 2. Improper Allocation of Program Expenditures

The Health Department is required to comply with 2 CFR Part 200. According to 2 CFR 200.405 (c), *"Any cost allocable to a particular Federal award under the principles provided for in this Part may not be charged to other federal awards..."* During our review of direct expenditures of the Family Planning Program, we noted one invoice had a 100% allocation of the shipping and handling costs to Family Planning, instead of equitably allocating these costs to all benefitting programs. We recommend that the Health Department implement policies and procedures to ensure that expenses are adequately and properly allocated to correct benefitting programs.

**Management Response:** The Health Department agrees that the shipping costs should be allocated according to the invoice amount for each program and has corrected this issue.

### 3. Unapproved Indirect Community Membership Expense

The Health Department is required to comply with 2 CFR Part 200. According to 2 CFR 200.454 (c), *"Costs of membership in any civic or community organization are allowable with prior approval by the Federal awarding agency or pass-through entity."*

During our review of indirect expenditures, we noted a membership fee for a community organization that the Health Department did not receive appropriate prior approval to expense. WIC, WIC Breastfeeding, and Family Planning were overstated by \$385, \$47, and \$153; respectively. However, there was no impact on MDHHS grant funding. We recommend that the agency seek prior approval from the PHA Office of Local Health Services before expensing membership fees to a civic or community organization.

**Management Response:** The Health Department agrees that memberships in civic or community organizations are not allowable without prior approval. Approval will be received from the State of Michigan before charging these costs in the future.

#### **4. 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.*

For 2 of the 15 client fees reviewed, we noted the Health Department did not follow Title X guidelines and bill clients based on their ability to pay. We recommend that the Health Department provide training to employees on charging clients according to the sliding fee scale, and implement monitoring procedures to ensure compliance.

**Management Response:** The Health Department agrees that the sliding scale should be followed uniformly. The previous software had not been doing the calculation correctly. If the program box was checked in the income verification within the software, the updated annual income was not used. The agency did not realize this was happening as it was only one employee who was checking the program box. The Health Department has since acquired new software eliminating the issue.

5. **Lack of Recent 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 Corrective Action in that audit report was: "The Mid-Michigan District Health Department will conduct a cost analysis to establish an effective rate for each procedure in an effort to set the billing rate for Family Planning services and supplies that are sufficient to recover the reasonable cost of the services." The Health Department, however, never completed a cost analysis of the services and supplies they provide. We again 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.

**Management Response:** The Health Department has conducted a cost study already and will write a policy to be approved by the Board of Health according to the guidance provided from MDHHS.