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GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF HEALTH & HUMAN SERVICES
BUREAU OF AUDIT
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NICK LYON
DIRECTOR

July 12, 2018

Nicole Britten, Health Officer
Berrien County Health Department
2149 E. Napier Avenue
Benton Harbor, Michigan 49022

Dear Mr. Britten:

Attached is our final report from the Michigan Department of Health and Human Services audit of the Berrien County Health Department Family Planning Program for the period October 1, 2015 through September 30, 2016.

The final report contains the following: Description of Agency; Funding Methodology; Purpose and Objectives; Scope and Methodology; Conclusions, and Findings; 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.

Final reports are posted for public viewing on the MDHHS website at:
http://www.michigan.gov/mdhhs/0,5885,7-339-73970_43164-151236--,00.html.

Thank you for the cooperation extended throughout this audit process.

Sincerely,

A handwritten signature in black ink, reading "Shannah M. Havens".

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

cc: Debra Hallenbeck, Director, Audit Division
Lynette Biery, Administrator, Bureau of Family Health Services
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Lisa Ankenbruck, Business Manager, Berrien County Health Department
Kraig Smith, Director of Finance, Berrien County Health Department

Audit Report

Berrien County Health Department
Family Planning Program

October 1, 2015 – September 30, 2016



Bureau of Audit
Audit Division
July 2018

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. Non-Compliant Fringe Benefit Distributions	2
2. Internal Service Fund Working Capital Reserves Exceed Allowable Amounts (Repeat)	3
3. Inadequate Support of Fees and Collections	4
<u>MDHHS Share of Costs and Balance Due</u>	5
Statement of Grant Program Revenues and Expenditures – Family Planning	6
Corrective Action Plans	7
Comments and Recommendations	10

DESCRIPTION OF AGENCY

The Berrien 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 Berrien County, and the administrative office is located in Benton Harbor, Michigan. The Health Department operates under the legal supervision and control of the Board of Health, which is appointed by the Board of Commissioners of Berrien County.

FUNDING METHODOLOGY

The Health Department services are funded from local appropriations, fees and collections, and grant programs. The Michigan Department of Health and Human Services (MDHHS) provided the Health Department with grant funding monthly, based on Financial Status Reports, in accordance with the terms and conditions of each grant agreement and budget.

The Family Planning Program was funded by MDHHS Grant Funds, First and Third Party Fees and Collections, Local and Other Revenue. Grant funding from MDHHS for the Family Planning Program is federal funding under federal catalog number 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 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 its Family Planning Program financial activity to MDHHS in accordance with applicable MDHHS requirements and agreements, applicable federal standards, and generally accepted accounting principles.
2. To determine the MDHHS share of costs for the Family Planning Program in accordance with applicable MDHHS requirements and agreements, and any balance due to or due from the Health Department.

SCOPE AND METHODOLOGY

We examined the Health Department's records and activities for the fiscal period October 1, 2015 to September 30, 2016. Our review procedures included the following:

- Reviewed the most recent Health Department Single Audit report for 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 equipment purchases over \$5,000 for the Family Planning Program.
- 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 its 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: non-compliant fringe benefit distribution (Finding 1), internal service fund working capital reserves exceed allowable amounts (repeat) (Finding 2), and inadequate support of fees and collections (Finding 3).

Finding

1. Non-Compliant Fringe Benefit Distributions

The Health Department did not properly allocate its employees' fringe benefit expenditures for employees working on multiple activities.

Title 2 CFR 200.431(b) for Fringe benefits specific to leave states, “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, family-related leave, sick leave, holidays, court leave, military leave, administrative leave, and other similar benefits, are allowable if... (2) The costs are equitably allocated to all related activities, including Federal awards.”

During our review, we noted three (30%) of 10 Health Department employees’ leave time was allocated based on the employees’ work schedules. If an employee is absent, leave time hours are allocated to programs based on the work schedule for the absent time period, instead of properly allocating the leave time to all programs that the employee actually worked.

Recommendation

We recommend that the Health Department implement policies and procedures to ensure that all fringe benefit distributions are based on records that accurately reflect the work performed to ensure compliance with Federal regulation.

Finding

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

Berrien County had four Internal Service Funds with working capital reserves that exceeded the allowable amount established by 2 CFR Part 200.

Berrien 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 December 31, 2015 financial statements, the County had accumulated excess balances for all four of its internal service funds.

Title 2 CFR Part 200, Appendix V, Section G states that internal service funds are dependent upon a reasonable level of working capital reserve to operate from one billing cycle to another. 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 Berrien County’s Internal Service Funds for the Year Ended December 31, 2015 for the funds that exceed the allowable limit:

Fund	2 CFR Part 200 Adjusted Retained Earnings (A)	60-Day Operating Expenses (B)	Excess (C) (A – B)	Months of Excess (D) ((C / B) x 2)
Property & Liability Fund	\$653,331	\$95,277	\$558,054	11.7
Workers' Comp. Fund	\$215,925	\$9,673	\$206,252	42.6
Health Care Fund	\$3,747,679	\$2,007,554	\$1,740,125	1.7
Unemployment Fund	\$64,651	\$3,138	\$61,513	39.2

Reductions are needed to achieve compliance with Federal cost principles for the funds above with excess working capital reserves.

Recommendation

We again recommend that Berrien 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 2019 by either cash refunds or adjustments to future billing rates/allocations to ensure compliance with Federal regulation.

Finding

3. Inadequate Support of Fees and Collections

The Health Department did not maintain sufficient source documentation to support the recorded revenue amounts.

Title 2 CFR 200.302(b) (3) states the non-Federal entity's financial management system must provide, "Records that identify adequately the source and application of funds for federally-funded activities. These records must contain information pertaining to Federal awards, authorizations, obligations, unobligated balances, assets, expenditures, income and interest and be supported by source documentation." Additionally, Title 2 CFR 200.62(a) defines internal control over compliance requirements for Federal awards as a process designed to provide reasonable assurance that, "Transactions are properly recorded and accounted for, in order to: (1) Permit the preparation of reliable financial statements and Federal reports; (2) Maintain accountability over assets; and (3) Demonstrate compliance with Federal statutes, regulations, and the terms and conditions of the Federal award."

During our review, we noted that the Health Department did not provide sufficient source documentation to support \$5,644 of recorded Family Planning fees and collections.

The Statement of Grant Program Revenues and Expenditures shows adjustments to third party fees and collections line item to reflect unsupported amounts. These adjustments had no effect on Family Planning Program grant funds.

Recommendation

We recommend that the Health Department maintain sufficient source documentation to support all recorded revenue to ensure compliance with Federal regulations.

MDHHS SHARE OF COSTS AND BALANCE DUE

Objective 2: To determine the MDHHS share of costs for the Family Planning Program in accordance with applicable MDHHS requirements and agreements, and any balance due to or due from the Health Department.

Conclusion: The MDHHS obligation under the Family Planning Program for fiscal year ended September 30, 2016 is \$136,245. The attached Statement of Grant Program Revenues and Expenditures show the budgeted, reported, and allowable costs. The audit made an adjustment but had no effect on grant funds.

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

	BUDGETED	REPORTED	AUDIT ADJUSTMENT	ALLOWABLE
REVENUES:				
MDHHS Grant	\$136,245	\$136,245 1		\$136,245
Fees & Collections - 1st & 2nd Party	\$16,000	\$3,482		\$3,482
Fees & Collections - 3rd Party	\$85,500	\$72,600	(\$5,644) 2	\$66,956
Federal Cost Based Reimbursement	\$15,000	\$6,225		\$6,225
Local Funds - Other	\$338,428	\$115,877	\$5,644 2	\$121,521
TOTAL REVENUES	\$591,173	\$334,429	\$0	\$334,429
EXPENDITURES:				
Salary & Wages	\$227,411	\$173,845		\$173,845
Fringe Benefits	\$79,723	\$41,465		\$41,465
Supplies & Materials	\$57,000	\$47,036		\$47,036
Travel	\$14,251	\$10,530		\$10,530
Communication	\$50	\$54		\$54
Space Costs	\$19,979	\$10,432		\$10,432
Other	\$26,679	\$19,114		\$19,114
Indirect Costs	\$124,030	\$85,157		\$85,157
Other Costs Distributions	\$42,050	(\$53,205)		(\$53,205)
TOTAL EXPENDITURES	\$591,173	\$334,429	\$0	\$334,429

1 Actual MDHHS payments.

2 Inadequate Support of Fees and Collections (Finding 3)

Corrective Action Plan

Finding Number: 1

Page Reference: 2

Finding: **Non-Compliant Fringe Benefit Distributions**

The Health Department did not properly allocate its employees' fringe benefit expenditures for employees working on multiple activities.

Recommendation: Implement policies and procedures to ensure that all fringe benefit distributions are based on records that accurately reflect the work performed to ensure compliance with Federal regulation.

Comments: The Health Department agrees with the finding.

Corrective Action: The Health Department will develop a policy and implement a procedure to allocate paid time off (such as annual leave, sick leave, holidays, and other similar benefits) across all related activities.

Person Responsible for Implementation: Lisa Ankenbruck, Health Department Business Manager

Anticipated Completion Date: September 2018

MDHHS Response: None

Corrective Action Plan

Finding Number: 2

Page Reference: 3

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

Berrien County had four Internal Service Funds with working capital reserves that exceeded the allowable amount established by 2 CFR Part 200.

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 2019 by either cash refunds or adjustments to future billing rates/allocations to ensure compliance with Federal regulation.

Comments: The Health Department agrees with the finding.

Corrective Action: BCHD in coordination with Berrien County Financial Services is closely monitoring balances and has implemented a plan to ensure the Internal Service Funds working capital reserves are reduced to the allowable limits by FYE 2019. Significant progress has been made to date.

Person Responsible for Implementation:

Nicki Britten, BCHD Health Officer

Doug James, Berrien County Director of Financial Services

Lisa Ankenbruck, BCHD Business Manager

Anticipated Completion Date:

FYE 2019

MDHHS Response: None

Corrective Action Plan

Finding Number: 3

Page Reference: 4

Finding: **Inadequate Support of Fees and Collections**

The Health Department did not maintain sufficient source documentation to support the recorded revenue amounts.

Recommendation: Maintain sufficient source documentation to support all recorded revenue to ensure compliance with Federal regulations.

Comments: The Health Department agrees with the finding.

Corrective Action: BCHD will work with staff responsible for recording revenue and emphasize the importance of ensuring that all recorded revenue is supported by source documentation.

Person Responsible for Implementation: Lisa Ankenbruck, BCHD Business Manager

Anticipated Completion Date: July 2018

MDHHS Response: None

Comments and Recommendations

1. Unallowable Indirect Expenses

The Health Department included unallowable expenditures in its indirect cost pools. Title 2 CFR 200.438 states, “Costs of entertainment, including amusement, diversion, and social activities and any associated costs are unallowable, except where specific costs that might otherwise be considered entertainment have a programmatic purpose and are authorized either in the approved budget for the Federal award or with prior written approval of the Federal awarding agency.” Also, Title 2 CFR 200.421(e) states, “Unallowable advertising and public relation costs include the following...(3) Costs of promotional items and memorabilia, including models, gifts, and souvenirs.” During our review of the indirect cost pool expenditures, we noted that the Health Department did not receive prior approval to include \$1,049 of Administration and \$108 of Public Health Nursing entertainment expenses in its indirect cost pools. We also noted a \$1,903 unallowable souvenir expense was included in the administrative indirect cost pool. Due to the immaterial amount of the unallowable expenses and level of local funding there is no impact on MDHHS Grant funding. We recommend that the Health Department implement policies and procedures to ensure that only allowable expenditures are included in its indirect cost pools to ensure compliance with Federal regulation.

Management’s Response:

BCHD seeks to ensure proper policies and procedures are followed for managing MDHHS grant funding including internal control practices to prevent misuse of funds and ensure allowability of costs. Charges for entertainment and souvenirs are not authorized by Health Department policy. Refreshments and/or meals may only be authorized for official meetings if reasonable and necessary to conduct Health Department business or for a promotional activity that supports, enriches or improves a specific programmatic purpose rather than a general brand or logo. BCHD will use this recommendation as an opportunity to improve our local processes.

2. Not Charging Family Planning Clients According to the Sliding Fee Scale or Schedule of Fees

The Health Department did not consistently or appropriately charge clients according to the sliding fee scale or schedule of fees as required by Title X.

Title 42 CFR 59.5 (a)(7) states that each project must, “Provide that no charge will be made for services provided to any persons from a low-income family except to the extent that payment will be made by a third party (including a government agency) which is authorized to or is under legal obligation to pay this charge.” Also, in (8) it states, “Provide that charges will be made for services to persons other than those from low-income families in accordance with a schedule of discounts based on ability

to pay, except that charges to persons from families whose annual income exceeds 250 percent of the levels set forth in the most recent Poverty Guidelines issued pursuant to 42 U.S.C. 9902(2) will be made in accordance with a schedule of fees designed to recover the reasonable cost of providing services.”

During our review, we noted that six (42.86%) of 14 clients were not properly charged according to the Health Department’s sliding fee scale or schedule of fees. We noted two of the six clients were overcharged when the sliding fee discount was not consistently applied, and four of the six clients were overcharged with an amount higher than the current schedule of fees. We recommend that the Health Department provide training to employees on charging clients appropriately according to the sliding fee scale and schedule of fees, and implement monitoring procedures to ensure compliance with Federal regulation.

Management’s Response:

BCHD continually looks for ways to strengthen internal controls and seeks to provide ongoing and regular training to staff responsible for Family Planning services and/or client billings and to ensure staff are adequately trained and supervised. Additionally, BCHD is focused on increasing internal fiscal compliance and review procedures related to client billings. New billing software implemented within the year (2017) has provided opportunities to improve both reporting and compliance. BCHD will use this recommendation as an opportunity to improve our local processes.