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GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF HEALTH & HUMAN SERVICES
BUREAU OF AUDIT, REIMBURSEMENT AND QUALITY ASSURANCE
CAPITOL COMMONS CENTER • 400 SOUTH PINE • LANSING, MICHIGAN 48913

NICK LYON
DIRECTOR

January 17, 2018

Kevin Hughes, MA, Health Officer
District Health Department #10
521 Cobbs Street
Cadillac, MI 49601

Dear Mr. Hughes:

Enclosed is our final report from the Michigan Department of Health and Human Services audit of the District Health Department #10 WIC and Family Planning Programs 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, Findings, and Recommendations; Statements of Grant Program Revenues and Expenditures; Corrective Action Plan; and Comments and Recommendations. The Corrective Action Plan and Comments and Recommendations include the agency's response to the Preliminary Analysis.

Final reports are posted for public viewing on MDHHS's 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,

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

Enclosure

cc: Debra Hallenbeck, Director, Audit Division
Stan Bien, Director, WIC Division
Paulette Dobynes Dunbar, Manager, Division of Maternal and Infant Health
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Audit Report

District Health Department #10
WIC and Family Planning Programs

October 1, 2015 – September 30, 2016



Bureau of Audit, Reimbursement, and Quality Assurance

Audit Division

January 2018

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DESCRIPTION OF AGENCY

The District Health Department #10 (Health Department) is governed under the Public Health Code, Act 368 of 1978. The Health Department is a component unit of Newaygo County, which is the reporting entity, and the administrative office is located in White Cloud, Michigan. The Health Department is the largest geographic health department in Michigan. It operates under the legal supervision and control of the Board of Health, which is comprised of two county commissioners from each of the ten counties making up the jurisdiction: Crawford, Kalkaska, Lake, Manistee, Mason, Mecosta, Missaukee, Newaygo, Oceana, and Wexford Counties. The Health Department provides community health program services to the residents of these ten 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) Programs were funded by MDHHS Grant Funds and Other Local Funds. Grant funding from MDHHS for the WIC Programs 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 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.
2. To determine the MDHHS shares of cost for the WIC, WIC Breastfeeding, WIC Migrant, 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 to 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 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 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 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 one exception relating to non-compliant space cost allocation (Finding 1).

Finding

1. Inequitable Space Cost Allocation

The Health Department did not equitably allocate space costs for all its locations.

Title 2 CFR 200.405(a) states, "A cost is allocable to a Federal award or other cost objective if the goods or services involved are chargeable or assignable to that Federal award or cost objective in accordance with relative benefits received."

During our review of space costs, we noted that two locations, the Shelby Migrant WIC Clinic and WIC Grant Office, were only used for the WIC Migrant Program. The WIC Migrant Program's annual space costs reported on its FSR were \$5,099, however the applicable annual rental expense was \$11,400. As a result, the non-benefitting programs paid the difference and reported approximately \$6,300 of non-program related space cost expenditures on its FSRs. The Health Department's current process is to include these two locations in its total space costs allocation and distribute the space costs between all federal and general-funded programs such as WIC Resident Services, WIC Breastfeeding, and Family Planning resulting in the non-benefitting programs subsidizing the WIC Migrant Program.

Subsequent to our review, the Health Department agreed with this finding and corrected the space costs allocation process starting in August 2017. Also, the Shelby and Grant locations' space costs will now be charged directly to the WIC Migrant Program only.

Adjustments reflecting the change in WIC Migrant Program direct expenditures are shown on the attached Statement of Grant Program Revenues and Expenditures. Since the Health Department has fully exhausted WIC Migrant Grant funding, there is no impact on MDHHS Grant funding.

Recommendation

We recommend that the Health Department establish proper controls to ensure that all space costs are allocated equitably to each program based on relative benefits received to ensure compliance with Federal regulations.

MDHHS SHARES OF COST AND BALANCE DUE

Objective 2: To determine the MDHHS shares of cost for the WIC, WIC Breastfeeding, WIC Migrant, 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, WIC Migrant, and Family Planning Programs for fiscal year ended September 30, 2016 are \$1,479,400, \$207,725, \$98,000, and \$253,792; respectively. The attached Statements of Grant Program Revenues and Expenditures show the budgeted, reported, and allowable costs. The audit made an adjustment to the WIC Migrant Program, but Grant funding was not affected.

District Health Department #10
WIC
Statement of Grant Program Revenues and Expenditures
10/1/15 - 9/30/16

	BUDGETED	REPORTED	AUDIT ADJUSTMENT	ALLOWABLE
REVENUES:				
MDHHS Grant	\$1,479,400	\$1,479,400 ¹		\$1,479,400
Fees & Collections - 1st & 2nd Party				\$0
Fees & Collections - 3rd Party				\$0
Federal Cost Based Reimbursement				\$0
Local Funds - Other	\$120,303	\$153,278		\$153,278
TOTAL REVENUES	\$1,599,703	\$1,632,678	\$0	\$1,632,678
EXPENDITURES:				
Salary & Wages	\$813,403	\$822,246		\$822,246
Fringe Benefits	\$407,556	\$413,127		\$413,127
Contractual				\$0
Supplies & Materials	\$23,006	\$22,088		\$22,088
Travel	\$36,450	\$38,871		\$38,871
Communication	\$19,515	\$28,357		\$28,357
County-City Central Services				\$0
Space Costs	\$121,350	\$134,312		\$134,312
Other	\$33,000	\$24,873		\$24,873
Indirect Costs	\$222,267	\$194,806		\$194,806
Other Costs Distributions	(\$79,844)	(\$46,000)		(\$46,000)
TOTAL EXPENDITURES	\$1,596,703	\$1,632,678	\$0	\$1,632,678

¹ Actual MDHHS payments.

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

	BUDGETED	REPORTED	AUDIT ADJUSTMENT	ALLOWABLE
REVENUES:				
MDHHS Grant	\$207,725	\$207,725 ¹		\$207,725
Fees & Collections - 1st & 2nd Party				\$0
Fees & Collections - 3rd Party				\$0
Federal Cost Based Reimbursement				\$0
Local Funds - Other	\$21,134	\$7,831		\$7,831
TOTAL REVENUES	\$228,859	\$215,556	\$0	\$215,556
EXPENDITURES:				
Salary & Wages	\$93,840	\$105,236		\$105,236
Fringe Benefits	\$44,596	\$42,248		\$42,248
Contractual				\$0
Supplies & Materials	\$3,739	\$2,628		\$2,628
Travel	\$8,500	\$6,044		\$6,044
Communication	\$2,796	\$6,616		\$6,616
County-City Central Services				\$0
Space Costs	\$20,507	\$23,965		\$23,965
Other	\$5,387	\$4,349		\$4,349
Indirect Costs	\$25,541	\$23,257		\$23,257
Other Costs Distributions	\$23,953	\$1,484		\$1,484
TOTAL EXPENDITURES	\$228,859	\$215,826	\$0	\$215,826
<i>1 Actual MDHHS payments.</i>				

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

	BUDGETED	REPORTED	AUDIT ADJUSTMENT	ALLOWABLE
REVENUES:				
MDHHS Grant	\$98,000	\$98,000 ¹		\$98,000
Fees & Collections - 1st & 2nd Party				\$0
Fees & Collections - 3rd Party				\$0
Federal Cost Based Reimbursement				\$0
Local Funds - Other	\$12,451	\$3,879	\$6,300 ²	\$10,179
TOTAL REVENUES	\$110,451	\$101,879	\$6,300	\$108,179
EXPENDITURES:				
Salary & Wages	\$26,840	\$28,663		\$28,663
Fringe Benefits	\$12,253	\$11,544		\$11,544
Contractual				\$0
Supplies & Materials	\$1,024	\$1,895		\$1,895
Travel	\$1,200	\$1,282		\$1,282
Communication	\$816	\$927		\$927
County-City Central Services				\$0
Space Costs	\$4,317	\$5,099	\$6,300 ²	\$11,399
Other	\$897	\$1,612		\$1,612
Indirect Costs	\$7,213	\$6,340		\$6,340
Other Costs Distributions	\$55,891	\$44,516		\$44,516
TOTAL EXPENDITURES	\$110,451	\$101,879	\$6,300	\$108,179
¹ Actual MDHHS payments. ² Inequitable Space Cost Allocation (Finding #1)				

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

	BUDGETED	REPORTED	AUDIT ADJUSTMENT	ALLOWABLE
REVENUES:				
MDHHS Grant	\$253,792	\$253,792 ¹		\$253,792
Fees & Collections - 1st & 2nd Party	\$22,000	\$23,771		\$23,771
Fees & Collections - 3rd Party	\$184,000	\$173,112		\$173,112
Federal Cost Based Reimbursement	\$700,000	\$700,000		\$700,000
Local Funds - Other	\$141,265	\$84,621		\$84,621
TOTAL REVENUES	\$1,301,057	\$1,235,296	\$0	\$1,235,296
EXPENDITURES:				
Salary & Wages	\$639,943	\$605,517		\$605,517
Fringe Benefits	\$287,667	\$269,996		\$269,996
Contractual	\$36,630	\$35,330		\$35,330
Supplies & Materials	\$86,098	\$102,140		\$102,140
Travel	\$29,800	\$34,695		\$34,695
Communication	\$18,694	\$17,520		\$17,520
County-City Central Services				\$0
Space Costs	\$90,878	\$91,263		\$91,263
Other	\$28,793	\$29,334		\$29,334
Indirect Costs	\$171,144	\$138,060		\$138,060
Other Costs Distributions	(\$88,560)	(\$88,560)		(\$88,560)
TOTAL EXPENDITURES	\$1,301,087	\$1,235,296	\$0	\$1,235,296

¹ Actual MDHHS payments.

Corrective Action Plan

Finding Number: 1

Page Reference: 3

Finding: Inequitable Space Cost Allocation

The Health Department did not equitably allocate space costs for all its locations.

Recommendation: Establish proper controls to ensure that all space costs are allocated equitably to each program based on relative benefits received to ensure compliance with Federal regulations.

Comments: None.

Corrective Action: A plan has been developed to ensure that all space costs are allocated equitably to each program.

**Person Responsible
for Implementation:** Christine Lopez

**Anticipated
Completion Date:** Implemented starting FY 2017

MDHHS Response: None

Comments and Recommendations

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

The Health Department did not properly report its fees and collections on a cash basis on its Financial Status Report (FSR).

MDHHS's Financial Status Report (FSR) Form Preparation Instructions states, "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." Also, the description of fees and collections is, "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."

During our review, we noted that the Health Department reported fees and collections on an accrued basis. This was also noted in the MDHHS FYE 2013 audit. The Health Department's response to this finding was, "Fees for services and payments by third parties and any other collections will be reported when received during the current report period." The actual cash amount received from 1st, 2nd, and 3rd party fees and collections in FYE 2016 totaled \$196,700. The Health Department booked \$196,883 in fees & collections on the FYE 2016 FSR. Therefore, the fees and collections reported on the FSR were overstated by \$183. The over reported fees and collections had no effect on MDHHS grant funding. Furthermore, the FSR instructions changed in 2017 and as a result, we recommend that the Health Department report its fees and collections in compliance with the FSR form preparation instructions.

Management Response:

Fees for services and payments by third parties and any other collections have been reported on the accrual basis for all revenue except clients. The client's revenue was reported on the cash basis. An internal analysis was created showing the revenue differences between the cash basis and the accrual basis and the revenue was overstated by \$183. For Fiscal Year 2017 the requirement has changed and District 10 will be following the regulation.

2. Insufficient Documentation to Support Indirect Costs

The Health Department did not provide sufficient source documentation to support all expenditures recorded to federal programs.

Title 2 CFR 200.302(b) (3) states that the financial management system must have records that identify adequately the source and application of funds for federally-funded activities. These records must...be supported by source documentation. During our review, we noted that 3 (6%) of the 51 tested expenditures did not have sufficient source documentation to support the recorded expenditure. The Health Department provided a purchase order that approved the expenses, however no itemized receipts of purchase were included as supporting documentation. We recommend that the Health Department implement proper controls to ensure that source documentation supports all expenditures to ensure compliance with Federal requirements.

Management Response:

District Health Department #10 has implemented a system to ensure that all documentation is obtained and attached to the expenditure prior to reimbursement.

3. Not Charging Family Planning Clients Based on Ability to Pay

The Health Department did not consistently charge its clients based on ability to pay.

Title 42 CFR 59.5(a) (8) states that each grantee must, "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 1 (6.25%) of 16 sample encounters where the client's family income and size fell in the 100% charge (0% discount) category was not properly charged. The client received two procedures on the date of service, however the Health Department only applied the 0% discount on one procedure and allowed a 100% discount on the second procedure, resulting in an underpayment of \$60 to the Health Department. We recommend that the Health Department implement controls to ensure that all clients are charged based on ability to pay according to the sliding fee scale to ensure compliance with Federal regulation.

Management's Response:

A client's account was adjusted incorrectly and controls have been put in place to ensure that this type of error does not occur going forward.

4. Unsupported Cost Analysis in Setting a Reasonable Fee Schedule

The Health Department did not retain documentation to support its cost analysis to develop its 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, "Sub-recipients **must** document their process for determining how the schedule of fees is designed to recover the reasonable cost of providing services." Additionally, "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 completed a program cost analysis to develop its schedule of fees. However, during our review, we noted that the Health Department did not provide sufficient documentation to support the program costs used in the analysis. We recommend that the Health Department complete its cost analysis using the MDHHS Cost Analysis Tool and retain this cost analysis support to ensure compliance with Michigan Title X guidelines.

Management Response:

District Health Department #10 has a policy, approved by the Board of Health, which identifies that our fees do not necessarily cover the entire cost of providing the service. We are also ensuring that we have the necessary documentation to support the fee structure approved by the Board of Health.