

Audit Report

Benzie-Leelanau District Health Department
Family Planning and WIC Programs

October 1, 2011 – September 30, 2012



Office of Audit
Quality Assurance and Review
June 2013



RICK SNYDER
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF COMMUNITY HEALTH
OFFICE OF AUDIT
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JAMES K. HAVEMAN
DIRECTOR

June 28, 2013

Jenifer Murray, RN, MPH, Health Officer
Benzie-Leelanau District Health Department
6051 Frankfort Highway, Suite 100
Benzonia, Michigan 49616

Dear Ms. Murray:

Enclosed is our final report from the Michigan Department of Community Health (MDCH) audit of the Benzie-Leelanau District Health Department Family Planning and WIC Programs for the period October 1, 2011 through September 30, 2012.

The final report contains the following: description of agency; funding methodology; purpose; objectives; scope and methodology; conclusions, findings and recommendations; Statements of MDCH Grant Program Revenues and Expenditures; Corrective Action Plans; and Comments and Recommendations. The conclusions, findings, and recommendations are organized by audit objective. The Corrective Action Plans include the agency's paraphrased response to the Preliminary Analysis, and the Office of Audit's response to those comments where necessary. The Comments and Recommendations section includes areas where we believe there are opportunities for the agency to further strengthen internal controls or to increase operating efficiencies.

Thank you for the cooperation extended throughout this audit process.

Sincerely,

Debra S. Hallenbeck, Manager
Quality Assurance and Review
Office of Audit

Enclosure

cc: Stan Bien, Director, WIC Division
Paulette Dobynes Dunbar, Manager, Division of Family and Community Health
Jeanette Lightning, Manager, Reproductive Health Unit
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DESCRIPTION OF AGENCY

The Benzie-Leelanau 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 Benzie County, which is the reporting entity, and the administrative office is located in Benzonia, Michigan. The Health Department operates under the legal supervision and control of the Board of Health, which is comprised of commissioners from Benzie and Leelanau Counties. The Health Department provides community health program services to the residents of both counties. These service programs include: Food Service Sanitation, On-Site Sewage, Drinking Water, Vision Screening, Hearing Screening, Maternal Infant Health Program, Children's Special Health Care Program (CSHCS), Immunizations, General Communicable Disease Control, Sexually Transmitted Disease Control, AIDS/HIV Prevention, Women Infant and Children Supplemental Food Program (WIC), Bioterrorism Preparedness, Body Art Fixed Fee, and Family Planning Program.

FUNDING METHODOLOGY

The Health Department services are funded from local appropriations, fees and collections, and grant programs administered through the Michigan Department of Community Health (MDCH), which consist of federal and state funds. MDCH 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 Family Planning Program was funded by MDCH Grant Funds, First and Third Party Fees and Collections, Local and Other Revenue. Grant funding from MDCH for the Family Planning Program is federal funding under federal catalog number 93.217, and is subject to performance requirements. That is, reimbursement from MDCH is based upon the understanding that a certain level of performance (measured in caseload established by MDCH) 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.

The WIC, WIC Breastfeeding and WIC Migrant Programs were funded by MDCH Grant Funds, and Other Local Funds. Grant funding from MDCH for the WIC Programs is federal funding under federal catalog number 10.557, and is first source funding subject to performance requirements.

PURPOSE AND OBJECTIVES

The purpose of this audit was to assess the Family Planning Program and WIC Program internal controls and financial reporting, and to determine the MDCH shares of Family Planning Program and WIC Program costs. The following were the specific objectives of the audit:

1. To assess the Health Department's effectiveness in establishing and implementing internal controls over the Family Planning and WIC Programs.
2. To assess the Health Department's effectiveness in reporting their Family Planning Program and WIC Program financial activity to MDCH in accordance with applicable Department of Community Health requirements and agreements, applicable federal standards, and generally accepted accounting principles.
3. To determine the MDCH shares of cost for the Family Planning and WIC Program in accordance with applicable MDCH 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, 2011 to September 30, 2012. Our review procedures included the following:

- Reviewed the most recent Health Department Single Audit report for any Family Planning Program or WIC Program concerns.
- Completed an internal control questionnaire.
- Reconciled the Family Planning Program and WIC 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 indirect cost and other cost allocations for reasonableness, and an equitable methodology.
- Reviewed building space costs for proper reporting and compliance with Federal requirements.
- Reviewed Family Planning Medical Supply inventory records.
- 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

INTERNAL CONTROLS

Objective 1: To assess the Health Department's effectiveness in establishing and implementing internal controls over the Family Planning and WIC Programs.

Conclusion: The Health Department was generally effective in establishing and implementing internal controls over the Family Planning and WIC Programs. We noted one exception related to the Family Planning Program. We noted a lack of controls over the drugs and contraceptive inventory (Finding 1).

Finding

1. Lack of Controls Over Drugs and Contraceptive Inventory

The Health Department does not maintain a perpetual inventory and does not perform periodic physical inventories of their medications, drugs and contraceptives.

The Health Department keeps their medications, drugs and contraceptives secure in locked cabinets within a locked room. However, the Health Department does not maintain any logs that would indicate incoming or outgoing quantities of medications, drugs, or contraceptives. The employee responsible for the maintenance of the inventory visually scans the inventory to determine what needs to be ordered. However, there is no periodic physical inventory to compare what should be on hand to what is actually on hand.

Recommendation

We recommend that the Health Department implement written policies and procedures to ensure the maintenance of a perpetual inventory, the completion of periodic physical inventories, and investigation of any significant variances.

FINANCIAL REPORTING

Objective 2: To assess the Health Department's effectiveness in reporting their Family Planning Program and WIC Program financial activity to MDCH in accordance with applicable Department of Community Health requirements and agreements, applicable federal standards, and generally accepted accounting principles.

Conclusion: The Health Department generally reported their Family Planning Program and WIC Program financial activity to MDCH in accordance with applicable Department of Community Health requirements and agreements, applicable federal standards, and generally accepted accounting principles. However, an exception was noted with the allocation of salaries and wages (Finding 2).

Finding

2. Improper Allocation Methodology for Salaries and Wages.

The Health Department allocates salaries and wages based on a budgeted percent allocation and does not adjust charges to the actual cost based on personnel activity reports as required by OMB Circular A-87.

The Health Department's contract with MDCH (Part II, Section III, Part A) requires compliance with OMB Circular A-87 (located at 2 CFR Part 225). OMB Circular A-87, Appendix B, Section 8.h. states the following with respect to salary and wage allocations:

- (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)...*
- (5)(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 difference between budgeted and actual costs are less than ten percent; and*
 - (iii) *The budget estimates or other distribution percentages are revised at least quarterly, if necessary, to reflect changed circumstances.*

Recommendation

We recommend that the Health Department implement policies and procedures to ensure employees complete required personnel activity reports, and salary and wage costs are adjusted to actual costs based on the personnel activity reports on a quarterly basis, or annually if the difference between budgeted and actual cost is less than ten percent.

MDCH SHARES OF COST AND BALANCE DUE

Objective 3: To determine the MDCH shares of cost for the Family Planning and WIC Programs in accordance with applicable MDCH requirements and agreements, and any balance due to or due from the Health Department.

Conclusion: The MDCH obligation under the Family Planning Program for fiscal year ended September 30, 2012, is \$32,185, under the WIC Program is \$124,117, under the WIC Breastfeeding Program is \$36,140 and under the WIC Migrant Program is \$24,171. The attached Statements of MDCH Grant Program Revenues and Expenditures show the budgeted, reported, and allowable costs. The audit made no adjustments affecting Family Planning Program or WIC Program funding.

Benzie-Leelanau District Health Department
Family Planning Program
Statement of MDCH Grant Program Revenues and Expenditures
10/1/11 - 9/30/12

	BUDGETED	REPORTED	AUDIT ADJUSTMENT	ALLOWABLE
REVENUES:				
MDCH Grant	\$32,185	\$32,185 ¹	\$0	\$32,185
Fees 1st & 2nd Party	\$3,000	\$2,503	\$0	\$2,503
Fees & Collections - 3rd Party	\$28,000	\$29,285	\$0	\$29,285
Federal Cost Based Reimbursement	\$13,111	\$13,141	\$0	\$13,141
MCH Funding	\$15,490	\$15,490	\$0	\$15,490
Local Funds Other	\$4,170	\$2,916	\$0	\$2,916
Miscellaneous Income	\$0	\$0	\$0	\$0
TOTAL REVENUES	\$95,956	\$95,520	\$0	\$95,520
EXPENDITURES:				
Salary & Wages	\$18,275	\$20,110	\$0	\$20,110
Fringe Benefits	\$9,325	\$8,556	\$0	\$8,556
Supplies	\$24,151	\$20,081	\$0	\$20,081
Travel	\$1,637	\$2,895	\$0	\$2,895
Communications	\$310	\$265	\$0	\$265
Other Expenses	\$13,515	\$15,745	\$0	\$15,745
Space Cost	\$9,937	\$9,280	\$0	\$9,280
Admin Overhead	\$6,346	\$6,515	\$0	\$6,515
Nursing Administration	\$12,460	\$12,073	\$0	\$12,073
TOTAL EXPENDITURES	\$95,956	\$95,520	\$0	\$95,520

¹ Actual MDCH payments provided on a performance reimbursement basis.

Benzie-Leelanau District Health Department
WIC Supplemental Food Program
Statement of MDCH Grant Program Revenues and Expenditures
10/1/11 - 9/30/12

	BUDGETED	REPORTED	AUDIT ADJUSTMENT	ALLOWABLE
REVENUES:				
MDCH Grant	\$124,117	\$124,117 ¹	\$0	\$124,117
Fees & Collections – 3 rd Party	\$1,200	\$630	\$0	\$630
Local Funding	\$18,928	\$1,277	\$0	\$1,277
TOTAL REVENUES	\$144,245	\$126,024	\$0	\$126,024
EXPENDITURES:				
Salary & Wages	\$51,299	\$43,601	\$0	\$43,601
Fringe Benefits	\$23,224	\$18,915	\$0	\$18,915
Supplies	\$1,550	\$1,607	\$0	\$1,607
Travel	\$1,976	\$3,304	\$0	\$3,304
Communications	\$677	\$578	\$0	\$578
Space Cost	\$16,585	\$16,588	\$0	\$16,588
Other Expenses	\$185	\$1,459	\$0	\$1,459
Indirect Costs	\$16,673	\$14,009	\$0	\$14,009
Other Cost Distributions	\$32,076	\$25,963	\$0	\$25,963
TOTAL EXPENDITURES	\$144,245	\$126,024	\$0	\$126,024

¹ Actual MDCH payments provided on a performance reimbursement basis.

**Benzie-Leelanau District Health Department
WIC Breastfeeding/Peer Counselor Program
Statement of MDCH Grant Program Revenues and Expenditures
10/1/11 - 9/30/12**

	BUDGETED	REPORTED	AUDIT ADJUSTMENT	ALLOWABLE
REVENUES:				
MDCH Grant	\$36,140	\$36,140 ¹	\$0	\$36,140
Local Funding	\$0	\$57	\$0	\$57
TOTAL REVENUES	\$36,140	\$36,197	\$0	\$36,197
EXPENDITURES:				
Salary & Wages	\$8,184	\$8,325	\$0	\$8,325
Fringe Benefits	\$3,698	\$3,352	\$0	\$3,352
Supplies	\$485	\$504	\$0	\$504
Travel	\$2,265	\$944	\$0	\$944
Communications	\$180	\$102	\$0	\$102
Space Cost	\$1,120	\$1,049	\$0	\$1,049
Other Expenses	\$12,844	\$14,756	\$0	\$14,756
Indirect Costs	\$2,650	\$2,512	\$0	\$2,512
Other Cost Distributions	\$4,714	\$4,654	\$0	\$4,654
TOTAL EXPENDITURES	\$36,140	\$36,197	\$0	\$36,197

¹ Actual MDCH payments provided on a performance reimbursement basis.

Benzie-Leelanau District Health Department
WIC Migrant Program
Statement of MDCH Grant Program Revenues and Expenditures
10/1/11 - 9/30/12

	BUDGETED	REPORTED	AUDIT ADJUSTMENT	ALLOWABLE
REVENUES:				
MDCH Grant	\$24,171	\$24,171 ¹	\$0	\$24,171
Local Funding	\$63	\$284	\$0	\$284
TOTAL REVENUES	\$24,234	\$24,455	\$0	\$24,455
EXPENDITURES:				
Salary & Wages	\$8,618	\$8,941	\$0	\$8,941
Fringe Benefits	\$3,901	\$3,851	\$0	\$3,851
Supplies	\$75	\$19	\$0	\$19
Travel	\$873	\$580	\$0	\$580
Communications	\$757	\$765	\$0	\$765
Space Cost	\$0	\$216	\$0	\$216
Other Expenses	\$1,820	\$1,780	\$0	\$1,780
Indirect Costs	\$2,801	\$2,912	\$0	\$2,912
Other Cost Distributions	\$5,389	\$5,391	\$0	\$5,391
TOTAL EXPENDITURES	\$24,234	\$24,455	\$0	\$24,455

¹ Actual MDCH payments provided on a performance reimbursement basis.

Corrective Action Plan

Finding Number: 1

Page Reference: 3

Finding: **Lack of Controls Over Drugs and Contraceptive Inventory**

The Health Department does not maintain a perpetual inventory and does not perform periodic physical inventories of their medications, drugs and contraceptives.

Recommendation: Implement written policies and procedures to ensure the maintenance of a perpetual inventory, the completion of periodic physical inventories, and investigation of any significant variances for medications, drugs and contraceptives.

Comments: The Benzie Leelanau District Health Department does perform monthly physical inventories of its Family Planning medications and contraceptives, but will improve the process by creating a perpetual inventory.

Corrective Action: The Pharmaceutical Policy was updated to outline the inventory process including a perpetual inventory.

Anticipated Completion Date: Start date for this process is July 1, 2013.

MDCH Response: None

Corrective Action Plan

Finding Number: 2

Page Reference: 3

Finding: **Improper Allocation Methodology for Salaries and Wages**

The Health Department allocates salaries and wages based on a budgeted percent allocation and does not adjust charges to the actual cost based on personnel activity reports as required by OMB Circular A-87.

Recommendation: Implement policies and procedures to ensure employees complete required personnel activity reports, and salary and wage costs are adjusted to actual costs based on the personnel activity reports on a quarterly basis, or annually if the difference between budgeted and actual cost is less than ten percent.

Comments: Finance staff reviews actual program allocations of salaries and wages on an annual basis and makes the necessary changes. It is understood on why this needs to be done on a quarterly basis.

Corrective Action: Finance staff will now review personnel activity reports on a quarterly basis and make changes to personnel distribution tables to reflect time actually worked in a program.

Anticipated

Completion Date: July 1, 2013. To make the correction effective this fiscal year, quarterly personnel activity reports will be ran for October 2012 through June 30, 2013 and distribution tables will be changed effective July 1, 2013.

MDCH Response: None

Comments and Recommendations

Fee Schedule Not Based on Cost Analysis

The MDCH Title X Family Planning Standards and Guidelines, Section 6.3.1 Charges, Billings, and Collections requires that the Health Department use a recent cost analysis of all services provided by the project to develop a fee schedule designed to recover the reasonable costs of providing services. While current fees appear sufficient to recover the reasonable costs of providing services, they were not based on a recent cost analysis.

Recommendation:

We recommend that the Health Department perform the required cost analysis and ensure fees are designed to recover the reasonable costs of providing services. If choosing to set fees lower than what is required to recover actual costs, the Health Department must have an administration-approved policy in place designating the percentage of the cost the fee is to represent.

Comments:

The Health Department annually reviews its fees and costs. In 2009, an in depth cost analysis was completed. Following that in depth review, the administrative staff and Board of Health approved a 10% increase in visit fees each year until the fees met the cost. This 10% increase in visit fees has been incorporated into the fee schedule each year since. Supply costs are analyzed each year and fees for supplies are adjusted based on cost. Fee charges are discussed with community advisory board members each year and approved by the Board of Health each year. Another in depth analysis will be completed in the fall of 2013.