

Audit Report

Chippewa County Health Department WIC & Family Planning Programs

October 1, 2012 – September 30, 2013



Office of Audit
Quality Assurance and Review Section
September 2014



RICK SNYDER
GOVERNOR

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

JAMES K. HAVEMAN
DIRECTOR

September 10, 2014

Mr. David Martin, RS, MPA
Health Officer/Environmental Health Director
Chippewa County Health Department
508 Ashmun St., Suite 120
Sault Ste. Marie, MI 49783

Dear Mr. Martin:

Enclosed is our final report from the Michigan Department of Community Health (MDCH) audit of the WIC and Family Planning Programs for the period October 1, 2012 through September 30, 2013.

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; and Corrective Action Plans. The conclusions and findings 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.

As a result of Finding #2, we determined that \$2,509 is due back to MDCH for the WIC Program. Please remit a check for \$2,509 made payable to the State of Michigan by October 10, 2014 to:

Lisa M. Halverson, Manager
Revenue Operations Section, Accounting Division
Michigan Department of Community Health
P.O. Box 30437
Lansing, Michigan 48909

Mr. David Martin
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Thank you for the cooperation extended throughout this audit process.

Sincerely,

A handwritten signature in cursive script, reading "Debra S. Hallenbeck".

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

Enclosure

cc: Pam Myers, Director, Office of Audit
Stan Bien, Director, WIC Program
Paulette Dobynes Dunbar, Manager, Division of Family and Community Health
Jeanette Lightning, Manager, Reproductive Health Unit
Steve Utter, Financial Analyst, Division of Family and Community Health
Lisa M. Halverson, Manager, Revenue Operations Section, Accounting Division

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DESCRIPTION OF AGENCY

The Chippewa 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 Chippewa County, and the administrative office is located in Sault Ste. Marie, Michigan. The Health Department operates under the legal supervision and control of the Board of Commissioners of Chippewa County. The Health Department provides community health program services to the residents of Chippewa County. These service programs include: Food Service Sanitation, On-Site Sewage, Drinking Water, Vision Screening, Hearing Screening, Immunizations, General Communicable Disease Control, Sexually Transmitted Disease Control, Breast and Cervical Cancer Control Program Coordination, Prenatal Outreach, Family Planning, Children's Special Health Care Services Outreach, Bioterrorism/Emergency Preparedness/Pandemic Flu, Tobacco Control, Medicaid Outreach and Women Infants and Children (WIC) Supplemental Food 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 Program was funded by MDCH Grant Funds, and Other Local Funds. Grant funding from MDCH for the WIC Program 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 WIC and Family Planning Program internal controls and financial reporting, and to determine the MDCH shares of WIC and Family Planning 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 Programs 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, 2012 to September 30, 2013. Our review procedures included the following:

- Reviewed the most recent Health Department Single Audit report for any Family Planning Program or WIC Program concerns.
- Reviewed the completed 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 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 WIC and Family Planning Programs.

Conclusion: The Health Department was effective in establishing and implementing internal controls over the WIC and Family Planning Programs. We noted one internal control exception regarding the lack of a cost study to establish fees for the Family Planning Program (Finding 1).

Finding

1. Lack of a Recent Cost Analysis for Establishing Family Planning Program Fees

The Health Department did not use a recent cost analysis to develop their fee schedule for Family Planning Program services.

According to the Michigan Department of Community Health Title X Family Planning Program Standards and Guidelines, Section 6.3.1.B:

Delegate agencies must develop a process which utilizes 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. To be recent, a cost analysis should be conducted within three years, or within one year following major changes to the program.

Recommendation

We recommend that the Health Department conduct a cost analysis at least once every three years, and use the analysis to establish fees to ensure recovery of the reasonable costs of providing services.

FINANCIAL REPORTING

Objective 2: To assess the Health Department's effectiveness in reporting their WIC Program and Family Planning Program financial activity to MDCH in accordance with applicable MDCH 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 MDCH in accordance with applicable MDCH requirements and agreements, applicable federal standards, and generally accepted accounting principles. We noted two financial reporting exceptions: the overstatement of space costs (Finding 2) and the reporting of fees on the accrual basis (Finding 3).

Finding

2. Overstated Space Costs

The Health Department overstated space costs by expensing unallowable principal payments instead of building depreciation.

The County charges the Health Department rent each month. The amount is based on the required payment (principal and interest) for the bond on the Health Department Building. This amount is divided among programs based on square footage use, and reported as an expense on the Financial Status Reports. However, rather than principal and interest, Federal cost principles allow depreciation and interest.

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 establishes the principles and standards for determining allowable costs for Federal awards. Appendix B, Section 37. Rental costs of buildings and equipment addresses limitations for rental costs under "less-than-arm's-length" arrangements. Section 37 c. states the following:

Rental costs under "less-than-arm's-length" leases are allowable only up to the amount (this amount would include expenses such as depreciation or use allowance, maintenance, taxes, and insurance) that would be allowed had title to the property vested in the governmental unit. For this purpose, a less-than-arm's-length lease is one under which one party to the lease agreement is able to control or substantially influence the actions of the other.

Appendix B, Section 11. *Depreciation and use allowances* provides for the means of recovering the cost of fixed assets such as buildings. Section 11 states the following with respect to depreciation and use allowances:

a. Depreciation and use allowances are means of allocating the cost of fixed assets to periods benefiting from asset use. Compensation for the use of fixed assets on hand may be made through depreciation or use allowances.

The County charged the Health Department \$130,958 for rent for FYE 2013. However, according to the schedule prepared by the Health Department's outside auditor, depreciation and interest was only \$102,953, which represents the allowed amount under Federal cost principles. Accordingly, the difference of \$28,005 represents the unallowed portion, of which 8.96%, or \$2,509, was reported as an expense to the WIC Program, and 2.76%, or \$773, was reported as an expense to the Family Planning Program. Adjustments are shown on the attached Statements of MDCH Grant Program Revenues and Expenditures removing these unallowed costs.

The Health Department has indicated that after the 2013 FSR year that they will no longer be expensing rent because the bonds were fully paid as of FYE 2013.

Recommendation

We recommend that the Health Department implement policies and procedures to ensure that space cost allocations only include allowable expenses.

Finding

3. Misreported Fees (Repeat)

The Health Department reports fees on an accrual basis in violation of the MDCH Agreement which requires fees to be reported on a cash basis.

The MDCH Agreement, Part II, Section 1, B – Fees, requires the Health Department to:

Make reasonable efforts to collect 1st and 3rd party fees, where applicable, and report these as outlined by the Department's fiscal procedures.

Per the MDCH Financial Status Report Instructions, Section I:

The Financial Status Report is to be prepared reporting...revenue on an accrual basis, with the exception of fees which should be reported on a cash basis as received.

This issue was also cited in MDCH's FYE 2011 Audit Report and management's response was that they planned to adjust the reporting of fees on a cash basis on the FSR and will request assistance from the program staff at the state when doing so results in a seeming need for less grant dollars in any one year.

Adjustments to report fees on the cash basis are shown on the attached Statement of MDCH Grant Program Revenues and Expenditures.

Recommendation

We recommend that the Health Department implement policies and procedures to ensure fees are reported on a cash basis.

MDCH SHARES OF COST

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

Conclusion: The MDCH obligations under the WIC, WIC Breastfeeding, and Family Planning Programs for fiscal year ended September 30, 2013, are \$201,700, \$21,195, and \$52,024, respectively. The attached Statements of MDCH Grant Program Revenues and Expenditures show the budgeted, reported, and allowable costs. The audit made one adjustment impacting MDCH funding for the WIC Program. The Health Department owes \$2,509 for overstated space costs in the WIC FSR (Finding 2).

**Chippewa County Health Department
WIC Supplemental Food Program
Statement of MDCH Grant Program Revenues and Expenditures
10/1/12 - 9/30/13**

	BUDGETED	REPORTED	AUDIT ADJUSTMENT	ALLOWABLE
REVENUES:				
MDCH Grant	\$208,660	\$204,209 ¹	(\$2,509)	\$201,700
Local and Other Funds	\$2,000	\$274	\$0	\$274
TOTAL REVENUES	\$210,660	\$204,483	(\$2,509)	\$201,974
EXPENDITURES:				
Salary and Wages	\$99,845	\$94,952	\$0	\$94,952
Fringe Benefits	\$38,940	\$36,491	\$0	\$36,491
Supplies	\$4,785	\$7,077	\$0	\$7,077
Travel	\$1,302	\$992	\$0	\$992
Communications	\$800	\$740	\$0	\$740
Space Cost	\$13,975	\$17,031	(\$2,509) ²	\$14,522
Other Expense	\$5,214	\$1,556	\$0	\$1,556
Indirect Cost	\$45,799	\$45,643	\$0	\$45,643
TOTAL EXPENDITURES	\$210,660	\$204,483	(\$2,509)	\$201,974

¹ Actual MDCH payments provided on a performance reimbursement basis.

² Overstated Space Costs (Finding #2)

**Chippewa County Health Department
WIC Breastfeeding/Peer Counselor Program
Statement of MDCH Grant Program Revenues and Expenditures
10/1/12 - 9/30/13**

	BUDGETED	REPORTED	AUDIT ADJUSTMENT	ALLOWABLE
REVENUES:				
MDCH Grant	\$23,291	\$21,195 ¹	\$0	\$21,195
Local and Other Funds	\$2,012	\$4,434	\$0	\$4,436
TOTAL REVENUES	\$25,303	\$25,630	\$0	\$25,630
EXPENDITURES:				
Salary and Wages	\$15,583	\$14,383	\$0	\$14,383
Fringe Benefits	\$1,515	\$1,251	\$0	\$1,251
Supplies	\$1,555	\$3,889	\$0	\$3,889
Travel	\$613	\$536	\$0	\$536
Communications	\$0	\$0	\$0	\$0
Space Cost	\$0	\$0	\$0	\$0
Other Expense	\$395	\$142	\$0	\$142
Indirect Cost	\$5,642	\$5,429	\$0	\$5,429
TOTAL EXPENDITURES	\$25,303	\$25,630	\$0	\$25,630

¹ Actual MDCH payments provided on a performance reimbursement basis.

**Chippewa County Health Department
Family Planning Program
Statement of MDCH Grant Program Revenues and Expenditures
10/1/12 - 9/30/13**

	BUDGETED	REPORTED	AUDIT ADJUSTMENT	ALLOWABLE
REVENUES:				
MDCH Grant	\$52,024	\$52,024 ¹	\$0	\$52,024
Local and Other Funds	\$9,754	\$3,685	\$7,489 ^{2,3}	\$11,174
Fees and Collections – 1 st and 2 nd Party	\$4,830	\$4,708	(\$298) ³	\$4,410
Fees and Collections – 3 rd Party	\$63,200	\$64,780	(\$7,964) ³	\$56,816
Federal Cost Based Reimbursement	\$3,420	\$6,548	\$0	\$6,548
Required Match - Local	\$380	\$728	\$0	\$728
TOTAL REVENUES	\$133,608	\$132,473	(\$773)	\$131,700
EXPENDITURES:				
Salary and Wages	\$49,960	\$52,686	\$0	\$52,686
Fringe Benefits	\$22,346	\$20,737	\$0	\$20,737
Supplies	\$28,524	\$24,272	\$0	\$24,272
Travel	\$250	\$440	\$0	\$440
Communications	\$600	\$416	\$0	\$416
Space Cost	\$5,324	\$5,246	(\$773) ²	\$4,473
Other Expense	\$4,595	\$3,179	\$0	\$3,179
Indirect Cost	\$22,009	\$25,496	\$0	\$25,496
TOTAL EXPENDITURES	\$133,608	\$132,473	(\$773)	\$131,700

¹ Actual MDCH payments provided on a performance reimbursement basis.

² Overstated Space Costs (Finding# 2).

³ Adjust fees to cash basis (Finding #3).

Corrective Action Plan

Finding Number: 1

Page Reference: 3

Finding: **Lack of a Recent Cost Analysis for Establishing Family Planning Program Fees**

The Health Department did not use a recent cost analysis to develop their fee schedule for Family Planning Program services.

Recommendation: Conduct a cost analysis at least once every three years, and use the analysis to establish fees to ensure recovery of the reasonable costs of providing services.

Comments: The Health Department keeps track of allowed reimbursement from major insurers such as Medicaid and BCBS to make sure fees do not fall below allowable reimbursement levels. A large segment of our self-pay clients are sliding fee, so we do not believe our methodology as resulted in much loss of net fees.

Corrective Action: A cost analysis will be completed annually following the close of each fiscal year to see if fees are reasonable.

Anticipated Completion Date: December or January of each year.

MDCH Response: None

Corrective Action Plan

Finding Number: 2

Page Reference: 3

Finding: Overstated Space Costs

The Health Department overstated space costs by expensing unallowable principal payments instead of building depreciation.

Recommendation: Implement policies and procedures to ensure that space cost allocations only include allowable expenses.

Comments: As of fiscal year 2014, the Health Department is no longer paying rent to the County for the office space, so this should not be an ongoing issue. The Health Department was recognizing rent expense as paid to the County Building Authority. In past years, costs may well have been under-reported when interest costs were higher, as the interest expense and building depreciation would both be allowed.

Corrective Action: None. The Health Department is no longer making payments for the building.

Anticipated Completion Date: Not applicable

MDCH Response: None

Corrective Action Plan

Finding Number: 3

Page Reference: 4

Finding: Misreported Fees (Repeat)

The Health Department reports fees on an accrual basis in violation of the MDCH Agreement, which requires fees to be reported on a cash basis.

Recommendation: Implement policies and procedures to ensure fees are reported on a cash basis.

Comments: The Health Department believes that most Health Department CFOs would agree that the policy to report fees and cost settlements on a cash basis makes no financial sense whatsoever. For financial reporting/auditing purposes, Health Departments are expected to utilize accrual or modified accrual accounting, and that is how the books are kept. However, given that the State is unwilling or unable to challenge this with federal funding authorities, the Health Department will attempt to make necessary adjustments to the FSR, at least annually. Even though we disagree with this requirement, we will implement cash basis reporting for fees on the FSR.

Corrective Action: Accrual based fees will be adjusted on the final FSR for each year to reflect estimated cash based fees by adjusting for accounts receivable changes, etc.

Anticipated Completion Date: September 30, 2014

MDCH Response: None