

Audit Report

District Health Department #10
Family Planning and WIC Programs

October 1, 2010 – September 30, 2011



Office of Audit
Quality Assurance and Review
December 2012



RICK SNYDER
GOVERNOR

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

JAMES K. HAVEMAN
DIRECTOR

December 28, 2012

Linda VanGills, MA, Health Officer
District Health Department #10
1049 Newell, P.O. Box 850
White Cloud, Michigan 49349

Dear Ms. VanGills:

Enclosed is our final report from the Michigan Department of Community Health (MDCH) audit of the District Health Department #10 Family Planning, WIC, and WIC Breastfeeding Programs for the period October 1, 2010 through September 30, 2011.

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; Cost vs. Amounts Billed for Supplies and Services Schedule; and Corrective Action Plans. The Corrective Action Plans include the agency's paraphrased response to the Preliminary Analysis.

The Preliminary Analysis was issued August 16, 2012 and we requested a response by September 17, 2012. After numerous attempts to get a response, we received a final response on December 26, 2012. However, Findings 1 and 3 have not been adequately addressed. Please see MDCH's further comments provided in the Corrective Actions Plans. Further corrective actions are needed as noted.

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
Pam Myers, Director, Office of Audit
Michael Gribbin, Auditor, Office of Audit
Keith Rubley, Auditor, Office of Audit
Steve Utter, Financial Analyst, Division of Family and Community Health

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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 operates under the legal supervision and control of the Board of Health, which is comprised of commissioners from 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. These service programs include: Food Service Sanitation, On-Site Sewage, Drinking Water, Vision Screening, Hearing Screening, Breast and Cervical Cancer Control Prevention, Immunizations, General Communicable Disease Control, Sexually Transmitted Disease Control, AIDS/HIV Prevention, Women Infant and Children Supplemental Food Program (WIC), Bioterrorism Preparedness, Medicaid Outreach, 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 and WIC Breastfeeding 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, WIC Program, and WIC Breastfeeding 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 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, 2010 to September 30, 2011. 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 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 that billing rates were not sufficient to recover cost (Finding 1).

Finding

1. Billing Rates Not Sufficient to Recover Cost

The Health Department's billing rates for family planning services and supplies were generally too low to recover cost. Therefore, clients from households with an annual income that exceeded 250% of the poverty guideline were not charged for the reasonable cost of providing services as required by Title X regulations.

For our test, we multiplied the billing rate for each service and supply times the number of times each service/supply was provided during the year. This determined the maximum annual recovery if every client was billed (and paid) the maximum amount billable per the fee schedule. When this was compared to the total cost of \$1,234,295 we found the rates used would not recover \$646,654 of the cost (see Cost vs. Amounts Billed for Supplies and Services Schedule).

Title X regulations at 42CFR59.5 (a) state, in part:

...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, except that charges to persons from families whose annual income exceeds 250 percent of the levels set forth in the most recent Poverty Guidelines...will be made in accordance with a schedule of fees designed to recover the reasonable cost of providing services....

Because the Health Department fee schedule cannot recover the total cost of services and supplies, amounts charged to persons from families whose annual income exceeds 250% of the Poverty Guidelines will not recover the reasonable cost of providing services.

The estimated effect is that an amount potentially recoverable from clients was paid from local revenues. Because the amount recovered from all clients was \$32,506 and billing rates were 52.4% below full cost recovery, we can estimate the effect was \$35,770 for the year.

Recommendation

We recommend that the Health Department comply with the Title X regulations by increasing its billing rates to an amount that is sufficient to recover the reasonable cost of services.

FINANCIAL REPORTING

Objective 2: To assess the Health Department's effectiveness in reporting their 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 financial activity to MDCH in accordance with applicable Department of Community Health requirements and agreements, applicable federal standards, and generally accepted accounting principles. However, exceptions were noted with the classification of longevity payments (Finding 2) and the allocation of administrative overhead (Finding 3).

Finding

2. Longevity Payments Classified as Fringe Benefits

The Health Department improperly classified longevity payments as fringe benefits on the FSR.

Generally Accepted Accounting Principles (GAAP) require the classification of taxable payments to employees as salaries and wages and not as fringe benefits, and costs must be properly classified on the FSR.

Adjustments to properly classify costs are shown on the attached Statements of MDCH Grant Program Revenues and Expenditures.

Recommendation

We recommend that the Health Department adopt policies and procedures to ensure longevity payments are properly classified as salaries and wages on FSRs in the future.

Finding

3. Administrative Overhead Allocation Errors

The Health Department improperly included capital expenditures in their administrative overhead cost pool, did not net all applicable revenues against expenditures, and overstated the administrative overhead cost distribution base resulting in a net understatement in the allocation rate.

The Health Department's agreement with MDCH requires compliance with OMB Circular A-87 (located at 2 CFR Part 225).

OMB Circular A-87, Appendix B, Section 15. b. (5), states:

Equipment and other capital expenditures are unallowable as indirect costs. However, see section 11 of this appendix, Depreciation and use allowance, for rules on the allowability of use allowance or depreciation on buildings, capital improvements, and equipment.

OMB Circular A-87, Appendix A, Section C. 1., states:

To be allowable under Federal awards, costs must meet the following general criteria:...
i. Be the net of all applicable credits.

OMB Circular A-87, Appendix A, Section F. 1., states:

Indirect cost pools should be distributed to benefitted cost objectives on bases that will produce an equitable result in consideration of relative benefits derived.

The Health Department included \$211,059 in capital expenditures in their administrative overhead cost pool rather than an appropriate amount of depreciation. Additionally, only a portion of applicable credits (revenue) was netted against the administrative overhead cost pool. Finally, it appears that the total agency salaries and fringes was used as the distribution base with administrative salaries and fringes not being properly removed. These errors resulted in a net understatement in the allocation rate.

After removing the capital expenditures from the administrative overhead cost pool, adding an appropriate amount of depreciation for the capital expenditures, netting all applicable credits against the cost pool, and reducing the administrative overhead cost distribution base by removing administrative salaries and fringes, the amount of allowable administrative overhead expenditures increased by the following:

Family Planning	\$6,062
WIC Resident.....	5,590
WIC Breastfeeding.....	451

Adjustments adding the allowable expenditures are shown on the attached Statements of MDCH Grant Program Revenues and Expenditures. Since MDCH grant funds have already been exhausted, the adjustments had no impact on MDCH funding.

Recommendation

We recommend that the Health Department adopt policies and procedures to ensure that unallowable costs are excluded from the administrative overhead cost pool, all applicable credits are properly netted against the cost pool, and an appropriate distribution base is used when allocating administrative overhead costs.

MDCH SHARE OF COSTS 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, 2011 is \$199,617, under the WIC Program is \$1,422,200, and under the WIC Breastfeeding Program is \$97,500. 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.

District Health Department #10
WIC Resident
Statement of MDCH Grant Program Revenues and Expenditures
10/1/10 - 9/30/11

	BUDGETED	REPORTED	AUDIT ADJUSTMENT	ALLOWABLE
REVENUES:				
MDCH Grant	\$1,422,200	\$1,422,200 1	\$0	\$1,422,200
Other Non-LPHO	\$0	\$0	\$0	\$0
Local Funds	\$47,649	\$36,852	(\$904)	\$35,948
TOTAL REVENUES	\$1,469,849	\$1,459,052	(\$904)	\$1,458,148
EXPENDITURES:				
Salary & Wages	\$712,655	\$702,321	\$5,948 2	\$708,269
Fringe Benefits	\$406,413	\$410,571	(\$12,442) 2,4	\$398,129
Supplies	\$25,674	\$23,709	\$0	\$23,709
Travel	\$32,621	\$32,974	\$0	\$32,974
Communications	\$8,217	\$10,600	\$0	\$10,600
Space Cost	\$130,011	\$135,131	\$0	\$135,131
Other Expense	\$21,672	\$20,256	\$0	\$20,256
Admin Overhead	\$175,078	\$165,987	\$5,590 3	\$171,577
Other Cost Distribution	(\$42,492)	(\$42,497)	\$0	(\$42,497)
TOTAL EXPENDITURES	\$1,469,849	\$1,459,052	(\$904)	\$1,458,148

- 1** Actual MDCH payments provided on a performance reimbursement basis.
- 2** Longevity reported as Fringe Benefits rather than Salary & Wages (Finding 2).
- 3** Additional Administrative Overhead due to incorrect cost pool and incorrect distribution base (Finding 3)
- 4** Audited reduction of the retirement distribution subsequent to the FSR filing.

District Health Department #10
WIC Breastfeeding
Statement of MDCH Grant Program Revenues and Expenditures
10/1/10 - 9/30/11

	BUDGETED	REPORTED	AUDIT ADJUSTMENT	ALLOWABLE
REVENUES:				
MDCH Grant	\$97,500	\$97,500 1	\$0	\$97,500
Other Non-LPHO	\$0	\$0	\$0	\$0
Local Funds	\$10,178	\$10,178	\$9,744	\$19,922
TOTAL REVENUES	\$107,678	\$107,678	\$9,744	\$117,422
EXPENDITURES:				
Salary & Wages	\$41,844	\$39,749	\$12,834 2	\$52,583
Fringe Benefits	\$34,413	\$33,967	(\$606) 2	\$33,361
Supplies	\$3,787	\$4,034	(\$2,935) 2	\$1,099
Travel	\$2,183	\$4,070	\$0	\$4,070
Communications	\$658	\$733	\$0	\$733
Space Cost	\$11,130	\$10,610	\$0	\$10,610
Other Expenses	\$1,733	\$1,638	\$0	\$1,638
Admin Overhead	\$11,930	\$12,877	\$451 3	\$13,328
Other Cost Distribution	\$0	\$0	\$0	\$0
TOTAL EXPENDITURES	\$107,678	\$107,678	\$9,744	\$117,422

- 1** Actual MDCH payments provided on a performance reimbursement basis.
2 E-Gram Restrictions.
3 Additional Administrative Overhead due to incorrect cost pool and incorrect distribution base.(Finding 3).

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

	BUDGETED	REPORTED	AUDIT ADJUSTMENT	ALLOWABLE
REVENUES:				
MDCH Grant	\$199,617	\$199,617 1	\$0	\$199,617
Fees 1 st & 2 nd Party	\$90,000	\$33,908	(\$1,402) 5	\$32,506
Fees & Collections - 3 rd Party	\$163,600	\$197,055	(\$81,794) 4	\$115,261
Federal Cost Based Reimburse	\$91,094	\$0	\$0	\$0
MCH Funding	\$88,560	\$88,560	\$0	\$88,560
Local Funds	\$601,173	\$709,093	\$89,258	\$798,351
TOTAL REVENUES	\$1,234,044	\$1,228,233	\$6,062	\$1,234,295
EXPENDITURES:				
Salary & Wages	\$541,403	\$547,964	\$5,357 2	\$553,321
Fringe Benefits	\$282,195	\$290,073	(\$5,357) 2	\$284,716
Contractual	\$10,000	\$9,889	\$0	\$9,889
Supplies	\$132,907	\$115,885	\$0	\$115,885
Travel	\$28,500	\$22,516	\$0	\$22,516
Communications	\$7,071	\$12,859	\$0	\$12,859
Space Cost	\$89,156	\$91,226	\$0	\$91,226
Other Expenses	\$13,960	\$13,924	\$0	\$13,924
Admin Overhead	\$128,852	\$123,897	\$6,062 3	\$129,959
Other Distributions	\$0	\$0	\$0	\$0
TOTAL EXPENDITURES	\$1,234,044	\$1,228,233	\$6,062	\$1,234,295

- 1** Actual MDCH payments provided on a performance reimbursement basis.
2 Longevity reported as Fringe Benefits rather than Salary & Wages (Finding 2).
3 Additional Administrative Overhead due to incorrect cost pool and incorrect distribution base (Finding 3).
4 Prior quarter adjustment should have been local funding.
5 Adjustment to general ledger amount.

District Health Department #10
Family Planning
Cost vs. Amounts Billed for Supplies and Services Schedule
10/1/10 – 9/30/11

<u>Procedure</u>	<u>Total Quantity</u>	<u>Price</u>	<u>Total</u>
New Patient (12-17)	156	\$124.00	\$19,344.00
New Patient (18-39)	573	\$124.00	\$71,052.00
New Patient (40+)	23	\$132.00	\$3,036.00
Existing Patient (12-17)	86	\$112.00	\$9,632.00
Existing Patient (18-39)	946	\$112.00	\$105,952.00
Existing Patient (40+)	42	\$120.00	\$5,040.00
Transfer Visit 30 min High Complexity	1	\$100.00	\$100.00
Transfer Visit 20 min Mod Complexity	91	\$88.00	\$8,008.00
Transfer Visit 10 min Low Complexity	94	\$80.00	\$7,520.00
Revisit 30 min High Complexity	4	\$72.00	\$288.00
Revisit 15 min Mod Complexity	942	\$48.00	\$45,216.00
Revisit 10 min Low Complexity	1032	\$36.00	\$37,152.00
RN revisit/counsel intensive	0	\$24.00	\$0.00
RN revisit/counsel moderate	804	\$20.00	\$16,080.00
RN revisit/counsel supply	1042	\$16.00	\$16,672.00
GC/Chlamydia	40	\$40.00	\$1,600.00
Pap Smear Traditional	1141	\$24.00	\$27,384.00
Pap Smear Thin Prep	17	\$32.00	\$544.00
Pap Conveyance	1152	\$50.00	\$57,600.00
Hemoglobin	50	\$10.00	\$500.00
Pregnancy Test	933	\$8.00	\$7,464.00
Urinalysis	22	\$10.00	\$220.00
Vaginal Contraceptive Film	91	\$8.00	\$728.00
HPV	6	\$48.00	\$288.00
Venipuncture	0	\$12.00	\$0.00
Vaginal Smear/Wet Mount	78	\$20.00	\$1,560.00
Flagyl	0	\$0.00	\$0.00
Teraconazole	24	\$8.00	\$192.00
Terazol	5	\$8.00	\$40.00
Zithromax	0	\$0.00	\$0.00
Contraceptive Dispensing Fee	6213	\$12.00	\$74,556.00
Ortho Evra Patch	340	\$32.00	\$10,880.00
Depo	931	\$16.00	\$14,896.00
IUD Paragard	3	\$320.00	\$960.00
IUD Mirena	14	\$320.00	\$4,480.00
IUD Insertion	17	\$100.00	\$1,700.00
IUD Removal	24	\$100.00	\$2,400.00
Foam	55	\$8.00	\$440.00
Nuva Ring	805	\$28.00	\$22,540.00
Plan B	211	\$12.00	\$2,532.00
Female Condom	21	\$3.00	\$63.00
Condoms 1 DZ	2994	\$3.00	\$8,982.00
			<hr/> \$587,641.00
Total Expenses			<hr/> \$1,234,295.00
(Shortfall)/Excess			<hr/> (\$646,654.00)

Corrective Action Plan

Finding Number: 1

Page Reference: 3

Finding: **Billing Rates Not Sufficient to Recover Cost**

The Health Department's billing rates for family planning services and supplies were generally too low to recover cost. Therefore, clients from households with an annual income that exceeded 250% of the poverty guideline were not charged for the reasonable cost of providing services as required by Title X regulations.

Recommendation: Comply with the Title X regulations by increasing billing rates to an amount that is sufficient to recover the reasonable cost of services.

Health Department

Comments: The Health Department disagrees with the findings of the audit. Federal Title X regulations require a fee schedule designed "to recover the reasonable cost of providing services....." As such, DHD#10 has developed a fee schedule based on our actual direct service costs and does not include all of the indirect/administrative overhead costs. The agency provides a local in-kind contribution (in the form of indirect/administrative costs) to the effort of reducing the unintended pregnancy rates in our communities. In looking at fees, including all of the administrative costs would be a barrier to providing service to those in need of affordable family planning services. We choose not to pass the high overhead costs of the health department on to the client. The fee schedule in place does cover our actual direct service costs along with a reasonable administrative cost recovery as well.

Corrective Action: The fee schedules are approved by the Board of Health annually and are also adjusted annually.

MDCH Response: The fee schedule in place does not cover actual direct service costs let alone any administrative costs. For fiscal year end 2011, the fee schedule would have only covered 48% of total costs, and direct service costs represent 89% of total costs. The maximum annual recovery if every client was billed and paid per the fee schedule was \$587,641, and this does not even cover the cost of Salary & Wages and Fringe Benefits of the Family Planning Program. Direct service costs (total costs less administrative overhead) were \$1,104,336 and the fee schedule would only cover just over 50% of these costs. According to Federal regulation, fees need to be set to recover the reasonable cost of providing services and this would include both direct and indirect administrative costs. Action is needed to increase billing rates to an amount that is sufficient to recover the reasonable cost (direct and indirect) of services.

Corrective Action Plan

Finding Number: 2

Page Reference: 4

Finding: Longevity Payments Classified as Fringe Benefits

The Health Department improperly classified longevity payments as fringe benefits on the FSR.

Recommendation: Adopt policies and procedures to ensure that all taxable payments to employees are properly recorded as salaries and wages on the FSRs in the future.

Health Department

Comments: None

Corrective Action: Longevity payments will now be classified as wages in our general ledger and financial reports.

MDCH Response: None

Corrective Action Plan

Finding Number: 3

Page Reference: 4

Finding: Administrative Overhead Allocation Errors

The Health Department improperly included capital expenditures in their administrative overhead cost pool, did not net all applicable revenues against expenditures, and overstated the administrative overhead cost distribution base resulting in a net understatement in the allocation rate.

Recommendation: Adopt policies and procedures to ensure that unallowable costs are excluded from the administrative overhead cost pool, all applicable credits are properly netted against the cost pool, and an appropriate distribution base is used when allocating administrative overhead costs.

Health Department

Comments: Indirect cost errors were found as the audit year corresponded with the first year of entry into the E-Grants System. Corrections are in place to eliminate these errors in the future as the E-Grants System has been updated to allow for YTD reporting versus quarterly reporting.

Corrective Action: The cost of computer equipment has been identified as capital outlay and will be corrected on future reports. The cost reflected in indirect costs will be the depreciation amount for the year.

MDCH Response: The errors relating to not netting all applicable credits against the cost pool, and not removing administrative salaries and fringes from the distribution base were not addressed in the Health Department's response. The Health Department must take action to ensure all applicable credits are properly netted against the cost pool, and an appropriate distribution base is used when allocating administrative overhead costs.