

Audit Report

District Health Department #2
Family Planning Program

October 1, 2012 – September 30, 2013



Office of Audit
Quality Assurance and Review
April 2014



RICK SNYDER
GOVERNOR

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

JAMES K. HAVEMAN
DIRECTOR

April 14, 2014

Denise Bryan, MPA, Public Health Officer
District Health Department #2
630 Progress Street
West Branch, MI 48661

Dear Ms. Bryan:

Enclosed is our final report from the Michigan Department of Community Health (MDCH) audit of the District Health Department #2 Family Planning Program 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; Statement 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: Paulette Dobynes Dunbar, Manager, Division of Family and Community Health
Jeanette Lightning, Manager, Reproductive Health Unit
Pam Myers, Director, Office of Audit
Michael Gribbin, Senior Auditor, Office of Audit
Steve Utter, Financial Analyst, Division of Family and Community Health

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>Internal Controls</u>	2
1. Agency Cost Analysis Not Performed.....	3
<u>Financial Reporting</u>	3
2. Employee Compensation and Benefits Improperly Allocated.....	3
<u>MDCH Share of Costs and Balance Due</u>	4
Statement of MDCH Grant Program Revenues and Expenditures - Family Planning	5
Corrective Action Plans	6
Comments and Recommendations.....	8

DESCRIPTION OF AGENCY

The District Health Department #2 (Health Department) is governed under the Public Health Code, Act 368 of 1978. The Health Department is a component unit of Ogemaw County, which is the reporting entity, and the administrative office is located in West Branch, Michigan. The Health Department operates under the legal supervision and control of the Board of Health, which is comprised of commissioners from Alcona, Iosco, Ogemaw, and Oscoda Counties. The Health Department provides community health program services to the residents of these four 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, 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.

PURPOSE AND OBJECTIVES

The purpose of this audit was to assess the Family Planning Program internal controls and financial reporting, and to determine the MDCH share of Family Planning 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 Program.
2. To assess the Health Department's effectiveness in reporting their Family Planning 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 share of costs for the Family Planning 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, 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 concerns.
- Reviewed the completed internal control 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 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 Program.

Conclusion: The Health Department was effective in establishing and implementing internal controls over the Family Planning Program. We noted one exception related to the Family Planning Program. We noted that the required cost analysis was not performed (Finding 1).

Finding

1. Agency Cost Analysis Not Performed

The Health Department did not perform a cost analysis of all services provided by the Family Planning Program to develop their fee schedule.

According to the Michigan Department of Community Health Title X Family Planning 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.

The Health Department's "cost analysis" was limited to comparing the Health Department's fees to the state average of costs from FYE 2012. It does not appear there was an analysis of the *Health Department's costs*, and use of this information in designing the fee schedule.

Recommendation

We recommend that the Health Department perform a cost analysis that compares fees to program costs to determine if fees are set to recover Health Department costs.

FINANCIAL REPORTING

Objective 2: To assess the Health Department's effectiveness in reporting their Family Planning 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 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 allocation of health insurance buyouts and fringe benefits (Finding 2)

Finding

2. Employee Compensation and Benefits Improperly Allocated

The Health Department did not allocate their health insurance buyouts (employee compensation) and employee benefits in accordance with Federal cost principles.

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). For costs to be allowable under Federal awards, costs must be allocated in accordance with relative benefits received, and must conform to any limitations or exclusions set forth in OMB Circular A-87. According to OMB Circular A-87, Appendix B, Section 8.:

- d.(5) The cost of fringe benefits in the form of employer contributions or expenses for social security; employee life, health, unemployment, and worker's compensation insurance; pension plan costs; and other similar benefits...shall be allocated to Federal awards and all other activities in a manner consistent with the pattern of benefits attributable to the individuals or group(s) of employees whose salaries and wages are chargeable to such Federal awards and other activities.*
- h.(4) Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports.*

Employees are allowed to receive a monthly cash payment in the amount of \$115 if they choose not to receive health benefits. Instead of allocating this employee compensation to the programs worked, the Health Department allocates the entire amount to the employee's home reporting unit (RU), which is the program where the employee spends the majority of their time. The Health Department should spread this compensation cost based on the actual time spent in each program according to documented time records (personnel activity reports).

The Health Department allocates Health Insurance and other benefits based on a budgeted percentage calculated at the beginning of the fiscal year. At the end of the year, the percentages and allocations are adjusted based on the supervisors' observations of where the employees spent their time rather than actual time spent on each program according to documented time records (personnel activity reports).

Recommendation

We recommend that the Health Department adopt policies and procedures to ensure that all employee compensation and benefits are allocated in accordance with Federal cost principles.

MDCH SHARE OF COSTS AND BALANCE DUE

Objective 3: To determine the MDCH share of costs for the Family Planning Program 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, 2013 is \$66,813. The attached Statement of MDCH Grant Program Revenues and Expenditures shows the budgeted, reported, and allowable costs. The audit made no adjustments affecting the Family Planning Program.

District Health Department #2
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	\$66,813	\$66,813 ¹	\$0	\$66,813
Fees 1 st & 2 nd Party	\$16,000	\$2,268	\$0	\$2,268
Fees & Collections – 3 rd Party	\$50,000	\$54,841	\$0	\$54,841
Federal Cost Based Reimbursement	\$19,000	\$19,325	\$0	\$19,325
Local Funds	\$44,800	\$65,525	\$0	\$65,525
TOTAL REVENUES	\$196,613	\$208,772	\$0	\$208,772
EXPENDITURES:				
Salary & Wages	\$83,419	\$92,144	\$0	\$92,144
Fringe Benefits	\$34,202	\$44,918	\$0	\$44,918
Supplies	\$23,275	\$21,300	\$0	\$21,300
Travel	\$3,340	\$2,694	\$0	\$2,694
Communications	\$7,262	\$6,733	\$0	\$6,733
Space Cost	\$10,131	\$11,219	\$0	\$11,219
Other Expenses	\$3,894	\$2,256	\$0	\$2,256
Admin Overhead	\$29,405	\$27,168	\$0	\$27,168
Other Distributions	\$1,685	\$340	\$0	\$340
TOTAL EXPENDITURES	\$196,613	\$208,772	\$0	\$208,772

¹ Actual MDCH payments provided on a performance reimbursement basis.

Corrective Action Plan

Finding Number: 1

Page Reference: 3

Finding: Agency Cost Analysis Not Performed

The Health Department did not perform a cost analysis of all services provided by the Family Planning Program to develop their fee schedule.

Recommendation: Perform a cost analysis that compares fees to program costs to determine if fees are set to recover Health Department costs.

Comments: Fee schedules are approved by the Board of Health and they are the costs passed on to the consumer for services received. Public Health has a responsibility to ensure that costs are reasonable as well as cover the costs for direct service provision as well as indirect costs. A cost analysis would provide vital data to substantiate the established fees and ensure costs of the department are recovered.

Corrective Action: District Health Department No. 2 will conduct a cost analysis and develop for the Board of Health Commissioners a fee schedule for approval that is designed to recover reasonable costs of the services provided.

**Anticipated
Completion Date:** June 13, 2014

MDCH Response: None

Corrective Action Plan

Finding Number: 2

Page Reference: 3

Finding: **Employee Compensation and Benefits Improperly Allocated**

The Health Department did not allocate their health insurance buyouts (employee compensation) and employee benefits in accordance with Federal cost principles.

Recommendation: Adopt policies and procedures to ensure that all employee compensation and benefits are allocated in accordance with Federal cost principles.

Comments: District Health Department No. 2 utilizes the Geneva software system for Finance/payroll and it did not have a distribution formula that allocated employee compensation and benefits according to the Federal cost principles.

Corrective Action: Effective April 1, 2014, the finance staff will manually distribute the Health Insurance Alternative and Medical Insurance based on actual hours worked the previous month. A work ticket request has been submitted to Geneva software programmers to develop a report that will automatically distribute the Health Insurance alternative. The Health Insurance alternative that went to the home RU for October 2013 thru March 2014 has been taken out and re-distributed to the actual wage using a report call "Staff Distribution by wage." This report will also be used to build distribution tables for the BCBS premiums.

**Anticipated
Completion Date:** 04/01/2014

MDCH Response: None

Comment and Recommendation

1. Billings to Clients with Health Insurance

Depending on the health insurance provider, if there is a balance on the account after applying the insurance proceeds, the Health Department charges the client. If there is a balance after the insurance company paid their portion, the sliding fee scale is applied to the remaining balance. However, this method does not agree with guidance provided by the Region V, Office of Population Affairs (OPA). OPA advises grantees to apply the sliding fee scale discount to the full charge. The insurance payment must be applied to the client's owed amount, and then any remaining balance can be billed. We recommend that the Health Department amend their billing procedures to follow the guidance provided by the Region V, Office of Population Affairs.

Management Response: Effective 4/1/14 the sliding fee scale discount will be applied to the full charge for services provided. The insurance payment will be applied to the client's owed amount and then any remaining balance will be billed to the client.