

Audit Report

Lenawee County Health Department
Family Planning Program

October 1, 2011 – September 30, 2012



Office of Audit
Quality Assurance and Review
April 2013



RICK SNYDER
GOVERNOR

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

JAMES K. HAVEMAN
DIRECTOR

April 15, 2013

Patricia Bourgeois, R.N., M.S., Health Officer
Lenawee County Health Department
1040 S. Winter Street, Suite 2328
Adrian, Michigan 49221-3871

Dear Ms. Bourgeois:

Enclosed is our final report from the Michigan Department of Community Health (MDCH) audit of the Lenawee County Health Department Family Planning Program 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; Statement of MDCH Grant Program Revenues and Expenditures; Cost vs. Amounts Billed for Services and Supplies Schedule; and Corrective Action Plans. The conclusions and findings are organized by audit objective. The Corrective Action Plans include the agency's response to the Preliminary Analysis, and the Office of Audit's response to those comments where necessary.

Thank you for the cooperation extended throughout this audit process.

Sincerely,

A handwritten signature in cursive script that reads "Debra S. Hallenbeck".

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
Keith Rubley, Auditor, Office of Audit
Steve Utter, Financial Analyst, Division of Family and Community Health

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DESCRIPTION OF AGENCY

The Lenawee County Health Department (Health Department) is governed under the Public Health Code, Act 368 of 1978. The Health Department is a component unit of Lenawee County, which is the reporting entity, and the administrative office is located in Adrian, Michigan. The Health Department operates under the legal supervision and control of the Board of Health, which is comprised of commissioners of Lenawee County. The Health Department provides community health program services to the residents Lenawee County. These service programs include: Food Service Sanitation, Communicable Disease Control, Sexually Transmitted Disease Control, Breast and Cervical Cancer Control Program, Immunization, Tobacco Reduction, Family Planning, Bioterrorism Preparedness, Vision Screening, Hearing Screening, On-Site Sewage, Drinking Water, Wisewoman, and Maternal Infant Health.

FUNDING METHODOLOGY

The Health Department services are funded from local appropriations, fees and collections, and grant programs. The Michigan Department of Community Health (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, and Local 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 on 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, 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 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 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 generally effective in establishing and implementing internal controls over the Family Planning Program. However, we noted a repeat exception with billing rates (Finding 1).

Finding

1. Billing Rates Not Sufficient to Recover Cost (Repeat)

The Health Department used billing rates for family planning services and supplies that 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 and 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 reported cost of \$288,540 we found the rates used would not recover \$46,229 of the cost (see Schedule of Cost vs. Amounts Billed for Services and Supplies).

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 a small amount potentially recoverable from clients was paid from local revenues. Because the amount recovered from all clients was \$16,339, and billing rates were about 16% under cost, we can estimate the effect was approximately \$3,117 for the year.

This issue was also noted in the FYE 2007 and the FYE 2010 MDCH audits. The Health Department raised rates for 2012; however, due to unforeseen circumstances the higher rates did not provide the income they expected. Lower client visits during software training reduced the client base. Additionally, early retirement buy-outs during the year increased costs. As a result, billing rates were not sufficient to recover the cost of providing services.

Recommendation

We recommend that the Health Department adjust billing rates as necessary to ensure charges are designed to recover the reasonable cost of providing services.

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. We noted one exception with the allocation of administrative overhead (Finding 2).

Finding

2. Administrative Overhead Costs Misallocated

The Health Department did not properly allocate Administrative Overhead costs to all benefitting programs, which resulted in over reported expenditures for all programs receiving the allocation including the Family Planning Program.

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 allocable to Federal awards under the provisions of 2 CFR Part 225. According to Appendix A of 2 CFR Part 225:

C.3.a. A cost is allocable to a particular cost objective if the goods or services involved are chargeable or assignable to such cost objective in accordance with relative benefits received.

C.3.b. All activities which benefit from the governmental unit's indirect cost including unallowable activities and services donated to the governmental unit by third parties, will receive an appropriate allocation of indirect costs.

F.I. 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 Administrative Overhead costs are allocated to the Health Department's programs based on Salaries and Fringe Benefits of each benefitting program. The Health Department, however, did not include the Salaries and Fringe Benefits of the REMS (Readiness and Emergency Management for Schools) Program in the distribution base resulting in an inequitable distribution base and an inequitable allocation. Even though the REMS Program Federal grant did not allow for an indirect cost allocation, it is receiving benefit from the Administrative Overhead cost and it must be included in the allocation calculation. Otherwise, the programs that are getting the allocation are receiving a disproportionate share. Local funding would need to be used to cover any expenditures not otherwise covered by grant funds.

The calculated impact is immaterial and would have no impact on MDCH funds. Accordingly, an adjustment is not being made.

Recommendation

We recommend that the Health Department implement policies and procedures to ensure that the Administrative Overhead cost distribution base is accurate to ensure that indirect costs are equitably distributed to cost objectives in accordance with relative benefits received.

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, 2012, is \$80,619. The attached Statement of MDCH Grant Program Revenues and Expenditures shows the budgeted, reported, and allowable costs. The audit made no adjustments affecting Family Planning grant program funding.

Lenawee County 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	\$80,619	\$80,619 ¹	\$0	\$80,619
Fees 1 st & 2 nd Party	\$19,279	\$16,339	\$0	\$16,339
Fees & Collections – 3 rd Party	\$59,512	\$51,706	\$0	\$51,706
MCH Funding	\$35,316	\$35,316	\$0	\$35,316
Fed Cost Based Reimbursement	\$16,365	\$29,951	\$0	\$29,951
Required Match Local	\$1,818	\$8,774	\$0	\$8,774
Local Funds	\$115,832	\$65,835	\$0	\$65,835
TOTAL REVENUES	\$328,741	\$288,540	\$0	\$288,540
EXPENDITURES:				
Salary & Wages	\$82,865	\$81,423	\$0	\$81,423
Fringe Benefits	\$42,525	\$35,933	\$0	\$35,933
Contractual	\$6,730	\$5,327	\$0	\$5,327
Supplies	\$40,039	\$28,453	\$0	\$28,453
Travel	\$500	\$6	\$0	\$6
Communications	\$2,000	\$1,837	\$0	\$1,837
Space Cost	\$20,125	\$20,125	\$0	\$20,125
Other Expense	\$15,106	\$13,190	\$0	\$13,190
County/City Central Services	\$27,167	\$27,167	\$0	\$27,167
Admin Overhead	\$45,945	\$43,993	\$0	\$43,993
Nursing Supervision	\$45,739	\$31,086	\$0	\$31,086
TOTAL EXPENDITURES	\$328,741	\$288,540	\$0	\$288,540

¹ Actual MDCH payments provided on a performance reimbursement basis.

**Lenawee County Health Department
Family Planning
Cost vs. Amounts Billed for Services and Supplies Schedule
10/1/11 – 9/30/12**

	<u>Procedure</u>	<u>Total Quantity</u>	<u>Price</u>	<u>Total</u>
99201	New Focused	301	\$35.00	\$10,535.00
99202	New Expanded	0	\$45.00	\$0.00
99203	New Detailed Low	0	\$60.00	\$0.00
99211	Est Brief	1148	\$30.00	\$34,440.00
99212	Est Focused	0	\$31.00	\$0.00
99213	Est Expanded	228	\$30.00	\$6,840.00
99384	New 12-17 years	71	\$130.00	\$9,230.00
99385	New 18-39 years	180	\$130.00	\$23,400.00
99386	New 40-64 years	6	\$130.00	\$780.00
99394	Est 12-17 years	23	\$120.00	\$2,760.00
99395	Est 18-39 years	424	\$120.00	\$50,880.00
99396	Est 40-64 years	29	\$120.00	\$3,480.00
81003	Urinalysis	19	\$6.00	\$114.00
85018	Hematocrit	262	\$6.00	\$1,572.00
87210	Wet Mount	61	\$11.00	\$671.00
81025	Urine Pregnancy Test	312	\$8.00	\$2,496.00
88142	Cytology	148	\$18.00	\$2,664.00
Z8005	Terazol Cream	1	\$3.69	\$3.69
Z8057	Bactrim	13	\$8.00	\$104.00
Z8506	Monistat	183	\$8.25	\$1,509.75
A4993	Oral Contraceptives	5265	\$15.00	\$78,975.00
3509	ECP/Plan B	0	\$28.51	\$0.00
3601	Terazol Cream	0	\$0.00	\$0.00
J1055	Depo	261	\$25.00	\$6,525.00
J7304	Ortha Patch	102	\$22.91	\$2,336.82
58301	IUD Removal	0	\$0.00	\$0.00
58300	IUD Insertion	0	\$0.00	\$0.00
J7302	IUD Mirena	0	\$0.00	\$0.00
J7300	IUD Paragard	0	\$0.00	\$0.00
A4268	Female Condom	25	\$1.00	\$25.00
A4267	Condoms	2970	\$1.00	\$2,970.00
				<u>\$242,311.26</u>
	Total Expenses			<u>\$288,540.00</u>
	(Shortfall)/Excess			<u><u>(\$46,228.74)</u></u>

Corrective Action Plan

Finding Number: 1

Page Reference: 2

Finding: **Billing Rates Not Sufficient to Recover Cost (Repeat)**

The Health Department used billing rates for family planning services and supplies that 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: Adjust billing rates as necessary to ensure charges are designed to recover the reasonable cost of providing services.

Comments: On December 21, 2011 our Board of Health approved increasing Family Planning (FP) fees which would bring in an additional \$89,750 based on the number of services provided in FY 10/11, if we provided the same number of services in FY 11/12. Our FP audit for FY 09/10 indicated that we would not recover \$48,999 of the cost. So we increased the amount by more than the FY 09/10 unrecovered amount to allow for unforeseen circumstances. The following unforeseen circumstances occurred: Our auditors informed us that the County Retirement buyouts had to be charged to Administrative costs in the year that we pay it (we had three of the four buyouts occur in FY 11/12, the fourth in FY 12/13) which increased our costs to all programs including FP. We had seven (7) Nursing division re-organizations and a lay-off of 25% of our staff during the FY partly due to the retirement buyouts and funding reductions. We implemented Insight software during the FY to stay on track for electronic health and medical records, which reduced the number of clinics and clients that we could see during implementation and training on the software and reduced staffing levels from the lay-off.

Corrective Action: We will be looking at rates after we track through our new Insight software to verify it is capturing all of the clients and services on the monthly income report generated by Insight. We are writing a larger number of prescriptions for Medicaid and Plan First clients, along with fewer required services per the Title X program guidelines.

**Anticipated
Completion Date:** Within the next couple of months.

MDCH Response: Title X regulations require that the fee schedule is designed to recover the reasonable cost of providing services. MDCH, however, recently obtained approval to allow for a variance in the setting of charges to allow a rate lower than that required to recover the full cost of program services based on community needs and a local administrative decision. Please refer to the recently revised Section 6.3.1 of the MDCH Title X Family Planning Standards and Guidelines, and ensure the required cost analysis is conducted and the required administration approved policy is in place if the Health Department chooses to set fees lower than what is required to recover actual costs.

Corrective Action Plan

Finding Number: 2

Page Reference: 4

Finding: Administrative Overhead Costs Misallocated

The Health Department did not properly allocate Administrative Overhead costs to all benefitting programs, which resulted in over reported expenditures for all programs receiving the allocation including the Family Planning Program.

Recommendation: Implement policies and procedures to ensure that the Administrative Overhead cost distribution base is accurate to ensure that indirect costs are equitably distributed to cost objectives in accordance with relative benefits received.

Comments: None.

Corrective Action: We have revised our instructions and spreadsheet that calculates the Indirect Rate (Administrative Overhead) so that Administrative Salaries and Fringes are the only items subtracted from total Salaries and Fringes.

Anticipated Completion Date: March 28, 2013.

MDCH Response: None.