

Audit Report

Luce-Mackinac-Alger-Schoolcraft District Health Department
Family Planning and WIC Programs

October 1, 2011 – September 30, 2012



Office of Audit
Quality Assurance and Review
September 2013



RICK SNYDER
GOVERNOR

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

JAMES K. HAVEMAN
DIRECTOR

September 24, 2013

Nicholas Derusha, REHS, Health Officer
LMAS District Health Department
14150 Hamilton Lake Road
Newberry, Michigan 49868

Dear Mr. Derusha:

Enclosed is our final report from the Michigan Department of Community Health (MDCH) audit of the Luce-Mackinac-Alger-Schoolcraft 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; Schedule of Costs vs. Amounts Billed for Services and Supplies; and Corrective Action Plans. The Corrective Action Plans include your agency's responses to the Preliminary Analysis.

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 Dobyns 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
Mike Gribbin, 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. Billing Rates Not Sufficient to Recover Cost	3
2. Lack of Biennial Periodic Inventory Verification	3
<u>Financial Reporting</u>	4
3. Payment in Lieu of Insurance Misclassified (Repeat)	4
<u>MDCH Shares of Cost and Balance Due</u>	5
Statement of MDCH Grant Program Revenues and Expenditures – Family Planning	6
Statement of MDCH Grant Program Revenues and Expenditures - WIC	7
Statement of MDCH Grant Program Revenues and Expenditures – WIC Breastfeeding	8
Costs vs. Amounts Billed for Services and Supplies Schedule	9
Corrective Action Plans	10

DESCRIPTION OF AGENCY

The Luce-Mackinac-Alger-Schoolcraft 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 Luce County, which is the reporting entity, and the administrative office is located in Newberry, Michigan. The Health Department operates under the legal supervision and control of the Board of Health, which is comprised of commissioners of Luce, Mackinac, Alger and Schoolcraft Counties. The Health Department provides community health program services to the residents of Luce, Mackinac, Alger and Schoolcraft Counties. These service programs include: Food Service Sanitation, On-Site Sewage, Drinking Water, Vision Screening, Hearing Screening, Immunizations, Breast and Cervical Cancer Control Program, Women Infant and Children Supplemental Food Program, Bioterrorism Preparedness, Medicaid Outreach, Sexually Transmitted Disease Control, Communicable Disease Control 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 (FSRs) 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 Second 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 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 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 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, 2011 to September 30, 2012. Our review procedures included the following:

- Reviewed the most recent 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 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. However, two exceptions were noted: Family Planning Program fees were not set to recover costs (Finding 1), and a biennial equipment inventory verification was not performed as required (Finding 2).

Finding

1. Billing Rates Not Sufficient to Recover Cost

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/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 \$195,793 we found the rates used would not recover \$62,854 of the cost (see Schedule of Costs 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 an amount potentially recoverable from clients was paid from local revenues. Because the amount recoverable from all clients was \$1,550 and billing rates were 32.1% below cost, we can estimate the effect was approximately \$733 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 as documented in a recent cost analysis. If, however, the Health Department chooses to set fees lower than what is required to recover actual costs, the Health Department must adopt a policy designating the percentage of the cost the fee is to represent in accordance with Section 6.3.1 of the MDCH Title X Family Planning Standards and Guidelines.

Finding

2. Lack of Biennial Periodic Inventory Verification

The Health Department does not perform an equipment inventory once every two years 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). According to OMB Circular A-87, Appendix B, Section 11. h: *"Physical inventories must be taken at least once every two years (a statistical sampling approach is acceptable) to ensure that assets exist, and are still in use."*

The Health Department performs equipment inventories once every three years, which does not comply with the Federal regulation requirement of at least once every two years.

Recommendation

We recommend that the Health Department perform their periodic equipment inventory verifications at least once every two years to be in compliance with Federal regulation.

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, one exception was noted: payments in lieu of insurance were misclassified on the FSRs (repeat) (Finding 3).

Finding

3. Payment in Lieu of Insurance Misclassified (Repeat)

The Health Department improperly reported salary and wages as fringe benefits expense when employees with other health insurance opt out of the Health Department's plan and are compensated for this option.

Payments to employees that opt out of the Health Department's health insurance plan are recorded as "Cash in Lieu of Insurance" on the general ledger, but are improperly classified as a fringe benefit on the FSR. Generally Accepted Accounting Principles require the classification of taxable payments to employees as salary and wages and not a fringe benefit, and costs must be properly classified on the FSR. We were informed that this was corrected on the FYE 2013 FSRs.

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 payments to employees opting out of the Health Department's insurance program are properly classified as salary and wages on FSRs in the future.

MDCH SHARES OF COST AND BALANCE DUE

Objective 3: To determine the MDCH shares of cost for the WIC, WIC Breastfeeding, 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 Program, WIC Breastfeeding Program, and Family Planning Program for fiscal year ended September 30, 2012, were \$170,637; \$59,494; and \$45,038, respectively. The reclassification adjustments had no impact on MDCH funding.

**LMAS 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	\$45,038	\$45,038 ¹	\$0	\$45,038
Fees 1 st & 2 nd Party	\$9,000	\$1,550	\$0	\$1,550
Fees & Collections – 3 rd Party	\$48,000	\$38,115	\$0	\$38,115
Local MCH	\$33,537	\$33,537	\$0	\$33,537
Local Funds Other	\$68,214	\$77,553	\$0	\$75,212
TOTAL REVENUES	\$203,789	\$195,793	\$0	\$195,793
EXPENDITURES:				
Salary and Wages	\$75,602	\$76,925	\$747	\$77,672
Fringe Benefits	\$22,151	\$22,047	(\$747)	\$21,300
Supplies	\$31,775	\$18,707	\$0	\$18,707
Travel	\$2,950	\$2,704	\$0	\$2,704
Communications	\$5,307	\$5,821	\$0	\$5,821
Other Expenses	\$2,465	\$12,912	\$0	\$12,912
Admin Overhead	\$63,539	\$56,677	\$0	\$54,336
TOTAL EXPENDITURES	\$203,789	\$195,793	\$0	\$195,793

¹ Actual MDCH payments provided on a performance reimbursement basis

² Misclassified Cash In Lieu of Benefits (Finding 3)

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

	BUDGETED	REPORTED	AUDIT ADJUSTMENT	ALLOWABLE
REVENUES:				
MDCH Grant	\$170,637	\$170,637 1	\$0	\$170,637
Local Funds Other	\$84,627	\$75,174	\$0	\$75,174
TOTAL REVENUES	\$255,264	\$245,811	\$0	\$245,811
EXPENDITURES:				
Salary and Wages	\$110,649	\$109,650	\$310 2	\$109,960
Fringe Benefits	\$32,420	\$31,048	(\$310) 2	\$30,738
Supplies	\$500	\$2,677	\$0	\$2,677
Travel	\$4,400	\$5,841	\$0	\$5,841
Communications	\$7,800	\$8,513	\$0	\$8,513
Other Expenses	\$6,500	\$7,266	\$0	\$7,266
Admin Overhead	\$92,995	\$80,816	\$0	\$80,816
TOTAL EXPENDITURES	\$255,264	\$245,811	\$0	\$245,811

1 Actual MDCH payments provided on a performance reimbursement basis

2 Misclassified Cash In Lieu of Benefits (Finding 3)

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

	BUDGETED	REPORTED	AUDIT ADJUSTMENT	ALLOWABLE
REVENUES:				
MDCH Grant	\$65,000	\$59,494 1	\$0	\$59,494
Local Funds Other	\$1,196	\$5,546	\$0	\$4,996
TOTAL REVENUES	\$66,196	\$65,040	\$0	\$65,040
EXPENDITURES:				
Salary and Wages	\$30,150	\$26,245	\$13 2	\$26,258
Fringe Benefits	\$8,834	\$7,285	(\$13) 2	\$7,272
Supplies	\$8,710	\$4,605	\$0	\$4,605
Travel	\$5,969	\$4,494	\$0	\$4,494
Communications	\$838	\$3,318	\$0	\$3,318
Other Expenses	\$0	\$135	\$0	\$135
Admin Overhead	\$11,695	\$18,958	\$0	\$18,958
TOTAL EXPENDITURES	\$66,196	\$65,040	\$0	\$65,040

1 Actual MDCH payments provided on a performance reimbursement basis

2 Misclassified Cash In Lieu of Benefits (Finding 3)

**LMAS District Health Department
Family Planning
Costs vs. Amounts Billed for Services and Supplies Schedule
10/1/11 – 9/30/12**

<u>Code</u>	<u>Procedure</u>	<u>Total Quantity</u>	<u>Price</u>	<u>Total</u>
99384	Initial – 12-17	24	\$108.00	\$2,592.00
99385	Initial – 18-39	55	\$108.00	\$5,940.00
99386	Initial – 40-64	4	\$127.00	\$508.00
99211	Nurse Visit	501	\$20.00	\$10,020.00
99212	NP Visit	71	\$45.00	\$3,195.00
99394	Annual Visit – 12-17	26	\$87.00	\$2,262.00
99395	Annual Visit – 18-39	149	\$88.00	\$13,112.00
99396	Annual Visit – 40-64	5	\$98.00	\$490.00
81025	Urine Preg Test	164	\$15.00	\$2,460.00
88141	Pap Smear	147	\$25.00	\$3,675.00
87491	Chlamydia Test	145	\$25.00	\$3,625.00
87591	Gonorrhea Test	11	\$25.00	\$275.00
85018	Hemoglobin	38	\$5.00	\$190.00
A4993	Oral Contraceptives	1,642	\$35.00	\$57,470.00
J1055	Depo	286	\$55.00	\$15,730.00
J7303	Nuva Ring	111	\$45.00	\$4,995.00
Z8506	Plan B	16	\$35.00	\$560.00
J7300	IUD	0	\$225.00	\$0.00
58300	IUD Insertion	0	\$100.00	\$0.00
58301	IUD Removal	0	\$100.00	\$0.00
J7304	Ortho Patch	146	\$40.00	\$5,840.00
A4267	Condoms	0	\$0.00	\$0.00
				<hr/>
				\$132,939.00
Total Expenses				<hr/>
				\$195,793.00
(Shortfall)/Excess				<hr/>
				(\$62,854.00)

Corrective Action Plan

Finding Number: 1

Page Reference: 3

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

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: Comply with the Title X regulations by increasing billing rates to an amount that is sufficient to recover the reasonable cost of services as documented in a recent cost analysis. If, however, the Health Department chooses to set fees lower than what is required to recover actual costs, adopt a policy designating the percentage of the cost the fee is to represent in accordance with Section 6.3.1 of the MDCH Title X Family Planning Standards and Guidelines.

Comments: The Health Department is in agreement with the above stated finding.

Corrective Action: The Health Department proposed an increase in billing rates for Family Planning services at the August 5, 2012 Board of Health Meeting. The increased rates were approved by the Board of Health and were effective September 1, 2012.

**Anticipated
Completion Date:** 9/1/12

MDCH Response: None

Corrective Action Plan

Finding Number: 2

Page Reference: 3

Finding: **Lack of Biennial Periodic Inventory Verification**

The Health Department does not perform an equipment inventory once every two years as required by OMB Circular A-87.

Recommendation: Perform the periodic equipment inventory verification at least once every two years to be in compliance with Federal regulation.

Comments: The Health Department is in agreement with the above stated findings.

Corrective Action: The Health Department has begun an Inventory Verification, and has added the task of “Inventory Verification” to the agency calendar. The completion of this task will be monitored by the Finance Director, and will be a recurring task every two years.

**Anticipated
Completion Date:** 10/1/13

MDCH Response: None

Corrective Action Plan

Finding Number: 3

Page Reference: 4

Finding: **Payment in Lieu of Insurance Misclassified (Repeat)**

The Health Department improperly reported salary and wages as fringe benefits expense when employees with other health insurance opt out of the Health Department's plan and are compensated for this option.

Recommendation: Adopt policies and procedures to ensure payments to employees opting out of the Health Department's insurance program are properly classified as salary and wages on FSRs in the future.

Comments: The Health Department agrees with the above stated finding. The Finance Director made these changes on the FSR reports, but the changes did not take effect until FY 2013. There will be no net change in expenses, as this will simply re-categorize this expense from one line item to another.

Corrective Action: The Health Department has already updated the FSR report to properly classify compensation in lieu of health insurance as wages rather than as fringe benefits.

Anticipated Completion Date: 2/1/2013

MDCH Response: None