

Audit Report

Midland County Health Department
Family Planning Program

October 1, 2012 – September 30, 2013



Office of Audit
Quality Assurance and Review
August 2014



RICK SNYDER
GOVERNOR

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

JAMES K. HAVEMAN
DIRECTOR

August 13, 2014

C. Michael Krecek, RS, MA
Director/Health Officer and Environmental Health Director
Midland County Health Department
220 W. Ellsworth Street
Midland, Michigan 48640

Dear Mr. Krecek:

Enclosed is our final report from the Michigan Department of Community Health (MDCH) audit of the Midland County Health Department 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; 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.

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
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DESCRIPTION OF AGENCY

The Midland 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 Midland County, and the administrative office is located in Midland, Michigan. The Health Department operates under the legal supervision and control of the Board of Commissioners of Midland County. The Health Department provides community health program services to the residents of Midland County. These services include: Food Service Sanitation, On-Site Sewage, Drinking Water, Vision Screening, Hearing Screening, Immunizations, General Communicable Disease Control, Sexually Transmitted Disease Control, Children's Special Health Care Services, Child Health, Maternal and Infant Support, Medicaid Outreach, Dental Services, Bioterrorism Preparedness, and Family Planning.

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 MDCH 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 generally effective in establishing and implementing internal controls over the Family Planning Program. However, we noted one exception related to the Family Planning Program. We noted that the Health Department does not have a recent cost analysis for which Family Planning Fees are based (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 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.

It appears that the Health Department conducted a cost analysis in 2010. The cost study did not compare fees to total program costs. The Health Department has not performed one since.

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 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, we noted four exceptions relating to financial reporting as follows: the Financial Status Report contained a misclassification relating to longevity payments and an overstatement of 3rd party revenues (Finding #2), salary and wage allocations did not comply with Federal requirements (Finding #3), fringe benefit allocations did not comply with Federal requirements (Finding #4), and indirect costs were understated (Finding #5).

Finding

2. Financial Status Report Errors (Repeat)

The Health Department improperly classified longevity payments as fringe benefits on the FSR, and overstated their 3rd party revenues on the FSR.

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

The Health Department's contract with MDCH, Part II, Section IV. D. Financial Status Report Submission, requires the Health Department to prepare the FSR in accordance with the Department's FSR Instructions. The FSR Instructions require the reporting of fees and collections received during the current reporting period.

Adjustments to properly classify costs and report the correct amount of 3rd party revenues are shown on the attached Statement of MDCH Grant Program Revenues and Expenditures.

Recommendation

We recommend that the Health Department adopt policies and procedures to ensure that all taxable payments to employees are properly recorded as salaries and wages on the FSRs and to ensure that all revenues are accurately reported.

Finding

3. Allocation of Salaries and Wages Based on Predetermined Percentages

The Health Department directly expensed the salaries and wages of the Clinic Services Director and clinic clerks based on predetermined percentages.

The Health Department's contract with MDCH, Part II, Section III. A. Compliance with Applicable Laws, requires the Health Department to comply with OMB Circular A-87 (located at 2 CFR Part 225).

According to OMB Circular A-87, Appendix B, Section 8.h.(4),

Where employees work on multiple activities or cost objectives, a distribution of their salaries and wages will be supported by personnel activity reports or equivalent documentation which meets the standards in subsection 8.h.(5).

According to OMB Circular A-87, Appendix B, Section 8.h.(5):

Personnel activity reports or equivalent documentation must meet the following standards:

- a.) They must reflect an after-the-fact distribution of actual activity for each employee,*
- b.) They must account for total activity for which the employee is compensated,*
- c.) They must be prepared at least monthly and must coincide with one or more pay periods, and*
- d.) They must be signed by the employee.*
- e.) **Budget estimates or other distribution percentages determined before the services are performed do not qualify as support for charges to federal awards but may be used for interim accounting purposes provided that:***
 - (i) **The governmental unit's system for establishing the estimates produces reasonable approximations of the activity actually performed;***
 - (ii) **At least quarterly, comparisons of actual costs to budgeted distributions based on monthly activity reports are made. Costs charged to Federal awards to reflect adjustments made as a result of the activity actually performed may be recorded annually if the quarterly comparisons show the differences between budgeted and actual costs are less than ten percent; and***
 - (iii) **The budget estimates or other distribution percentages are revised at least quarterly, if necessary, to reflect changed circumstances.***

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

General. Indirect costs are those: Incurred for a common or joint purpose benefiting more than one cost objective, and not readily assignable to the cost objectives specifically benefitted, without effort disproportionate to the results achieved...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 allocated the salary of the Clinic Services Director based on a predetermined percentage based on budget. For the three employees who work at the front desk of the clinic (that houses multiple programs including Family Planning), the Health Department computed allocation percentages for each program at the beginning of the year. There was no analysis done to determine whether or not the budgeted percentages properly reflect actual activity.

Salaries allocated as *direct* charges to multiple programs must be supported by personnel activity reports that reflect actual activity. Budgeted allocation percentages may be used for interim accounting purposes for allocating salaries as direct charges to multiple programs, but adjustments to actual are required. Alternatively, if the personnel costs are not readily assignable because the effort of completing personnel activity reports is disproportionate to the results achieved, the personnel costs related to the clerks and Clinic Services Director could be treated as indirect costs. If treating the personnel costs as indirect costs, the distribution of the indirect cost pool must be on bases that will produce an equitable result in consideration of relative benefits derived. A predetermined budget percentage will not necessarily result in an equitable distribution in accordance with relative benefits derived. Accordingly, the allocation should be based on benefits actually derived.

Recommendation

We recommend that the Health Department adopt policies and procedures to require the completion of personnel activity reports by all personnel whose salary is allocated as direct charges to multiple programs. If using predetermined budgeted allocation percentages, adjust charges to actual costs that are supported by personnel activity reports as required. Alternatively, if the clerk and Clinic Services Director personnel costs are considered indirect costs, adopt policies and procedures to ensure the distribution is equitable in accordance with relative benefits derived.

Finding

4. Fringe Benefits Allocated Based On Budgeted Percentages

The Health Department allocates fringe benefits based on budgeted allocation percentages rather than the actual time spent on each program.

The Health Department's contract with MDCH, Part II, Section III. A. Compliance with Applicable Laws, requires the Health Department to comply 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.:

- (2) *The cost of fringe benefits in the form of regular compensation paid to employees during periods of authorized absences from the job, such as for annual leave, sick leave, holidays, court leave, military leave, and other similar benefits, are allowable if: they are provided under established written leave policies; the costs are **equitably allocated to all related activities**, including Federal awards; and, the accounting basis (cash or accrual) selected for costing each type of leave is consistently followed by the governmental unit...*
- (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.....shall be **allocated to Federal awards and all other activities in a manner consistent with the benefits attributable to the individuals or group(s) of employees whose salaries and wages are chargeable to such Federal awards and other activities.***

The Health Department allocates fringe benefits for each employee based on budgeted allocation percentages that are based on the anticipated amount of time expected to work on each Health Department program during the upcoming year. These percentages are calculated by the County. The County then charges the Health Department's programs for fringe benefits based on these percentages. To ensure that fringe benefits are allocated equitably, the percentages should be analyzed and updated at least once every quarter based on actual time worked.

Recommendation

We recommend that the Health Department implement policies and procedures to ensure that all fringe benefits are allocated according to the relative benefits received.

Finding

5. Understated Indirect Costs

The Health Department understated their indirect costs.

Per the MDCH Grant Agreement, Part II, Section IV, D. Financial Status Report Submission, "*FSR's must report total actual program expenditures regardless of the source of funds.*"

Per OMB Circular A-87, Appendix A, General Principles for Determining Allowable Costs, Section C. 1. b., all costs must "*be allocable to Federal awards under the provisions of 2 CFR Part 225*" in order to be allowable. Per OMB Circular A-87, Appendix A, Section C. 3. Allocable Costs, "*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.*"

The County's Central Services Cost Allocation Plan included Health Data Management costs of \$60,494 that were not included in the Administrative Overhead cost calculation. Also, the Health Department was allocated the wrong amount for several insurance related expenses. The amounts on the invoice did not match the amounts on the County's allocation forms resulting in a total overstatement of \$3,260 to the Health Department.

The Health Data Management allocation and the total insurance variances were factored into a recalculation of the Family Planning Administrative Overhead. The variance between the amount we calculated (\$90,439) and the amount the Health Department expensed on the FSR (\$80,879) is an understatement of \$9,560. Adjustments are shown on the attached Statement of MDCH Grant Program Revenues and Expenditures. This will not affect funding since the Health Department has used all of their MDCH funding.

Recommendation

We recommend that the Health Department implement policies and procedures to ensure that all costs applicable to the Health Department are included in the indirect cost allocation.

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 \$74,890. 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.

Midland 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	\$74,890	\$74,890 1	\$0	\$74,890
Fees 1 st & 2 nd Party	\$35,000	\$17,012	\$0	\$17,012
Fees & Collections - 3 rd Party	\$106,391	\$95,471	(\$7,045) 3	\$88,426
Non-MDCH Funding	\$0	\$0	\$0	\$0
Local Funds	\$336,267	\$305,706	\$16,605 3, 4	\$322,311
TOTAL REVENUES	\$552,548	\$493,079	\$9,560	\$502,639
EXPENDITURES:				
Salary & Wages	\$179,788	\$175,989	\$2,798 2	\$178,787
Fringe Benefits	\$105,469	\$100,173	(\$2,798) 2	\$97,375
Supplies	\$115,150	\$76,314	\$0	\$76,314
Travel	\$2,500	\$1,878	\$0	\$1,878
Communications	\$125	\$112	\$0	\$112
County/City Central Services	\$20,012	\$20,651	\$0	\$20,651
Space Costs	\$26,338	\$26,338	\$0	\$26,338
Other Expense	\$18,208	\$10,745	\$0	\$10,745
Admin Overhead	\$84,958	\$80,879	\$9,560 4	\$90,439
TOTAL EXPENDITURES	\$552,548	\$493,079	\$9,560	\$502,639

- 1** Actual MDCH payments provided on a performance reimbursement basis.
2 Longevity recorded as a Fringe Benefit rather than Salary & Wages (Finding 2).
3 Overstatement of 3rd Party Revenues (Finding 2).
4 Understatement of Indirect Expenses (Finding 5).

Corrective Action Plan

Finding Number: 1

Page Reference: 2

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 agrees with this finding.

Corrective Action: A cost analysis that includes a comparison of fees to total program costs will be conducted.

**Anticipated
Completion Date:** 12/31/2014

MDCH Response: None

Corrective Action Plan

Finding Number: 2

Page Reference: 3

Finding: Financial Status Report Errors (Repeat)

The Health Department improperly classified longevity payments as fringe benefits on the FSR, and overstated their 3rd party revenues 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 and to ensure that all revenues are accurately reported.

Comments: The Health Department agrees with this finding.

Corrective Action: Longevity payments will be reclassified as salary for FSR purposes. The County is looking at changing how these payments are reflected in its financial reports.

**Anticipated
Completion Date:** 09/30/2014

MDCH Response: None

Corrective Action Plan

Finding Number: 3

Page Reference: 4

Finding: Allocation of Salaries and Wages Based on Predetermined Percentages

The Health Department directly expensed the salaries and wages of the Clinic Services Director and clinic clerks based on predetermined percentages.

Recommendation: Adopt policies and procedures to require the completion of personnel activity reports by all personnel whose salary is allocated as direct charges to multiple programs. If using predetermined budgeted allocation percentages, adjust charges to actual costs that are supported by personnel activity reports as required. Alternatively, if the clerk and Clinic Services Director personnel costs are considered indirect costs, adopt policies and procedures to ensure the distribution is equitable in accordance with relative benefits derived.

Comments: The Health Department agrees with this finding.

Corrective Action: A Clinic Admin Service cost center will be established with an allocated distribution based on relative benefits derived.

**Anticipated
Completion Date:** January 1, 2015

MDCH Response: None

Corrective Action Plan

Finding Number: 4

Page Reference: 5

Finding: **Fringe Benefits Allocated Based On Budgeted Allocation Percentages**

The Health Department allocates fringe benefits based on budgeted allocation percentages rather than the actual time spent on each program.

Recommendation: Implement policies and procedures to ensure that all fringe benefits are allocated according to the relative benefits received.

Comments: The Health Department agrees with this finding.

Corrective Action: The Health Department will do a quarterly analysis in order to allocate fringes based on actual time spent in each program. For the clinic administration employees, their fringes will be booked in the newly created clinic administration cost center.

**Anticipated
Completion Date:** January 1, 2015

MDCH Response: None

Corrective Action Plan

Finding Number: 5

Page Reference: 6

Finding: Understated Indirect Costs

The Health Department understated their indirect costs.

Recommendation: Implement policies and procedures to ensure that all costs applicable to the Health Department are included in the indirect cost allocation.

Comments: The Health Department agrees with this finding.

Corrective Action: All costs included in the Central Service Cost Allocation Plan will be included in the Administrative Overhead cost allocation.

**Anticipated
Completion Date:** 10/01/2014

MDCH Response: None