

Audit Report

Family Planning Association of Allegan County
Family Planning Program

October 1, 2011 – September 30, 2012



Office of Audit
Quality Assurance and Review
October 2013



RICK SNYDER
GOVERNOR

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

JAMES K. HAVEMAN
DIRECTOR

October 30, 2013

Erin Radke, RN, Executive Director
Family Planning Association of Allegan County
3255 122nd Avenue
Allegan, Michigan 49010

Dear Ms. Radke:

Enclosed is our final report from the Michigan Department of Community Health (MDCH) audit of the Family Planning Association of Allegan County 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; 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,

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 Dobyne 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

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
<u>Financial Reporting</u>	2
1. Misclassification of Revenue.....	3
2. Fees Not Reported on a Cash Basis	3
3. Payment in Lieu of Insurance Misclassified.....	4
<u>MDCH Share of Costs and Balance Due</u>	4
Statement of MDCH Grant Program Revenues and Expenditures.....	5
Corrective Action Plans	6
Comments and Recommendations.....	9

DESCRIPTION OF AGENCY

The Family Planning Association of Allegan County (Association) is organized as a non-profit agency under the provisions of Section 501(c)(3) of the Internal Revenue Code. The Association's administrative office is located in Allegan, Michigan. The Association operates under the legal supervision and control of its Board of Directors. The Association provides family planning and women's health services to residents of Allegan County.

FUNDING METHODOLOGY

The Association services are funded from local sources, fees and collections, and grant programs administrated through the Michigan Department of Community Health (MDCH), which consist of federal and state funds. MDCH provides the Association with grant funding monthly, based on Financial Status Reports, in accordance with the terms and conditions of the 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 Association's effectiveness in establishing and implementing internal controls over the Family Planning Program.
2. To assess the Association'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 Association.

SCOPE AND METHODOLOGY

We examined the Association's records and activities for the fiscal period October 1, 2011 to September 30, 2012. Our review procedures included the following:

- 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 building space/lease 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 Association's effectiveness in establishing and implementing internal controls over the Family Planning Program.

Conclusion: The Association was effective in establishing and implementing internal controls over the Family Planning Program. No exceptions were noted in our review.

FINANCIAL REPORTING

Objective 2: To assess the Association'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 Association generally reported their Family Planning Program financial activity to MDCH in accordance with applicable MDCH requirements and agreements, applicable federal standards, and generally accepted accounting principles. However, we noted a few exceptions. The Association misclassified revenue (Finding 1), and reported fees on a non-cash basis (Finding 2). Also, the employees received payment in lieu of insurance and it was reported as a fringe benefit rather than salary and wages (Finding 3).

Finding

1. Misclassification of Revenue

The Association reported Fees and Collections, Local and Other Revenue that could not be reconciled by line item to the general ledger.

While the total revenue received per the general ledger was close to the total revenue reported on the FSR, it could not be determined how the individual amounts for Fees and Collections, Local and Other Revenue were determined. The general ledger showed fees and collections of \$116,205, but only \$42,955 was reported. The general ledger showed local revenue of \$5,125, but \$30,758 was reported. The general ledger showed other revenue of \$23,570, but \$70,898 was reported.

The MDCH Financial Status Report Form Preparation Instructions states that fees and collections represent funds, which the program earns through its operation and retains for operational purposes, including fees for services, payments by third parties (insurance, patient collections, Medicaid, etc.) and any other collections. Local revenue typically includes revenues received from local governmental entities and revenues provided from internal sources. Other revenue includes revenues not included on any other applicable line.

Adjustments are shown on the attached Statement of MDCH Grant Program Revenues and Expenditures.

Recommendation

We recommend that the Association adopt policies and procedures to ensure revenues are reported on the appropriate lines on the FSR.

Finding

2. Fees Not Reported on a Cash Basis

The Association improperly reported client fees based on the amounts billed less applicable discounts rather than on the cash basis as required.

The MDCH Financial Status Report Form Preparation Instructions state:

The Financial Status Report is to be prepared reporting expenditures on a cash or accrual basis and revenue on an accrued basis, with the exception of fees which should be reported on a cash basis as received.

The Association reported \$16,137 of client receipts and \$97,384 of Medicaid and other insurance receipts on the FSR, which represents the amount billed less applicable discounts. However, only \$5,349 of client receipts and \$92,417 of Medicaid and other insurance receipts were actually collected on a cash basis. Adjustments are shown on the attached Statement of MDCH Grant Program Revenues and Expenditures.

Recommendation

We recommend that the Association adopt policies and procedures to ensure client fees are reported on the FSR based on the amount of cash received for the reporting period.

Finding

3. Payment in Lieu of Insurance Misclassified

The Association improperly reported salary and wages expense as fringe benefits when medical insurance was no longer available and the employees were instead given \$.70 per hour in lieu of insurance.

Payments to employees instead of providing insurance were recorded as “Insurance Alternative” on the general ledger, but improperly classified as a fringe benefit on the FSR. Generally Accepted Accounting Principles (GAAP) 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. The misclassification totaled \$5,590. Adjustments are shown on the attached Statement of MDCH Grant Program Revenues and Expenditures.

Recommendation

We recommend the Association adopt policies and procedures to ensure payments to employees in lieu of insurance are properly classified as salary and wages on FSRs in the future.

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 Association.

Conclusion: The MDCH obligation under the Family Planning Program for fiscal year ended September 30, 2012 is \$85,348. 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.

Family Planning Association of Allegan County
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	\$85,348	\$85,348 ¹	\$0	\$85,348
Fees & Collections	\$53,494	\$42,955	\$73,250 ² (\$15,755) ³	\$100,450
Other Revenue	\$103,900	\$70,898	(\$47,328) ²	\$23,570
Local Funds Other	\$20,800	\$30,758	(\$25,633) ² \$15,755 ³ (289) ⁵	\$20,591
TOTAL REVENUES	\$263,542	\$229,959	\$0	\$229,959
EXPENDITURES:				
Salary and Wages	\$139,810	\$133,476	\$5,590 ⁴	\$139,066
Fringe Benefits	\$23,621	\$21,096	(\$5,590) ⁴	\$15,506
Contractual	\$10,200	\$8,160	\$0	\$8,160
Supplies	\$40,643	\$34,328	\$0	\$34,328
Travel	\$700	\$492	\$0	\$492
Space Cost	\$0	\$0	\$0	\$0
Other Expenses	\$48,568	\$32,407	\$0	\$32,407
TOTAL EXPENDITURES	\$263,542	\$229,959	\$0	\$229,959

- 1** Actual MDCH payments provided on a performance reimbursement basis.
- 2** Reconciliation to General Ledger (Finding 1).
- 3** Reporting Client Fees on a cash basis (Finding 2).
- 4** Payment in Lieu of Insurance (Finding 3).
- 5** Reconciling item so revenues = expenditures.

Corrective Action Plan

Finding Number: 1

Page Reference: 3

Finding: Misclassification of Revenue

The Association reported Fees and Collections, Local and Other Revenue that could not be reconciled by line item to the general ledger.

Recommendation: Adopt policies and procedures to ensure revenues are reported on the appropriate lines on the FSR.

Comments: The Association agrees with the finding.

Corrective Action: The Association has created policies and procedures to ensure revenues are reported on the appropriate lines on the FSR. Plan First revenue will be added into the fees and collections.

**Anticipated
Completion Date:** Completed.

MDCH Response: None.

Corrective Action Plan

Finding Number: 2

Page Reference: 3

Finding: Fees Not Reported on a Cash Basis

The Association improperly reported client fees based on the amount billed less applicable discounts rather than on the cash basis as required.

Recommendation: Adopt policies and procedures to ensure client fees are reported on the FSR based on the amount of cash received for the reporting period.

Comments: The Association agrees with the finding.

Corrective Action: The Association will create policies and procedures to ensure client fees are reported on the FSR based on the amount of cash received for the reporting period.

**Anticipated
Completion Date:** November 2013.

MDCH Response: None.

Corrective Action Plan

Finding Number: 3

Page Reference: 4

Finding: Payment in Lieu of Insurance Misclassified

The Association improperly reported salary and wages expense as fringe benefits when medical insurance was no longer available and the employees were instead given \$.70 per hour in lieu of insurance.

Recommendation: Adopt policies and procedures to ensure payments to employees in lieu of insurance are properly classified as salary and wages on FSRs in the future.

Comments: The Association agrees with the finding.

Corrective Action: Policies and procedures are currently in place. Insurance alternative is now added to salaries/wages and not into fringe benefits.

Anticipated Completion Date: Completed.

MDCH Response: None.

Comments and Recommendations

Travel Vouchers and Travel Policy

During the review of travel vouchers, it was noted that the travel vouchers do not indicate departure, arrival and return times. While this not an issue regarding reimbursement for mileage only, it becomes important when employees are being reimbursed for meals. Currently, there is no way to tell if the time away justifies the meal being reimbursed. Additionally, the Travel Policy does not include time frames for meal reimbursement.

Recommendation

We recommend that the Association include departure, arrival and return times on the travel voucher and incorporate time frames for meal reimbursement within the Travel Policy (i.e. depart before 6:00 a.m. and arrive after 8:00 a.m. for breakfast reimbursement).

Association Response

The Association will begin including departure, arrival, and return times on travel vouchers and incorporate time frames for meal reimbursement within the Travel Policy.