

# Audit Report

## McKenzie Memorial Hospital Family Planning Program

October 1, 2008 – September 30, 2009



Office of Audit  
Quality Assurance and Review Section  
July 2010



JENNIFER M. GRANHOLM  
GOVERNOR

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

JANET OLSZEWSKI  
DIRECTOR

July 1, 2010

Steve Barnett  
CEO and President  
McKenzie Memorial Hospital  
120 Delaware  
Sandusky, Michigan 48471

Dear Mr. Barnett:

Enclosed is our final report from the Michigan Department of Community Health (MDCH) audit of the McKenzie Memorial Hospital Family Planning Program for the period October 1, 2008 through September 30, 2009.

The final report contains the following: description of agency; funding methodology; purpose and objectives; scope and methodology; conclusions, findings and recommendations; Statement of MDCH Grant Program Revenues and Expenditures; and corrective action plan. The conclusions, findings, and recommendations are organized by audit objective. The corrective action plan includes the agency's paraphrased response to the Preliminary Analysis.

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  
Pam Myers, Director, Office of Audit  
David Figg, Audit Manager, Office of Audit

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## **DESCRIPTION OF AGENCY**

The McKenzie Memorial Hospital (The Hospital) is organized as a non-profit agency under the provisions of Section 501(c)(3) of the Internal Revenue Code. The Family Planning program is located in a building owned by the Hospital. The Family Planning program operates under an Executive Director with reporting responsibilities to the Board of Directors of the Hospital. The Hospital provides health services including the Family Planning Program to residents of Sanilac County.

## **FUNDING METHODOLOGY**

The Family Planning services are funded from local sources, fees and collections, and a grant program administered through the Michigan Department of Community Health (MDCH), which consists of federal and state funds. MDCH provides the hospital 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 Funds, 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 Hospital's effectiveness in establishing and implementing internal controls over the Family Planning Program.
2. To assess the Hospital'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 Hospital.

## SCOPE AND METHODOLOGY

We examined the Hospital's Family Planning records and activities for the fiscal period October 1, 2008 to September 30, 2009. Our review procedures included the following:

- Completed an internal control questionnaire.
- Reconciled the Family Planning Program Financial Status Report (FSR) to the accounting records.
- Tested a sample of expenditures for program compliance, and policy and approval procedures.
- Reviewed other cost allocations for reasonableness, and an equitable methodology.
- Reviewed payroll expenditures.
- Reviewed Medical Supply inventory controls.
- 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 Hospital's effectiveness in establishing and implementing internal controls over the Family Planning Program.

**Conclusion:** The Hospital was generally effective in establishing and implementing internal controls over the Family Planning Program. However, we noted exceptions with segregation of duties (Finding 1), and medical supply internal controls (Finding 2).

#### **Finding**

##### **1. Lack of Separation of Duties in Payroll and Cash Receipting Processes**

The Hospital lacked appropriate separation of duties over the payroll preparation and cash receipting processes.

One person, the payroll supervisor, prepares, approves and distributes the payroll checks. Also, one employee in the clinic receives and prepares a daily log of all Family Planning cash receipts for fees and donations, and, at the end of the day, delivers the receipts to financial staff at another location to be entered into the general ledger. A second clinic employee occasionally handles this duty.

Good internal controls ensure that more than one individual is involved in any process. Since there are only two regular staff at the Family Planning Clinic, segregation of duties is difficult, but adding a verification, review, or approval function will help improve internal controls to help prevent or detect errors or irregularities.

### **Recommendation**

We recommend that the Hospital strengthen internal controls over the payroll process by having the Finance Officer or other manager review and approve the Family Planning payroll. We also recommend that the cash receipts logs be reviewed and initialed by both clinic staff for completeness and accuracy.

### **Finding**

#### **2. Lack of Internal Controls Over Medical Supplies and Drugs**

The Hospital lacked internal controls over Family Planning medical supplies and drugs.

Family Planning medical supplies and drugs are secured in a locked cabinet in a locked room. Only two employees regularly work in the clinic and have access to the medical supplies and drugs. One employee reviews quantities regularly and informs purchasing when supplies are low. However, a log is not maintained to show the quantities received and dispersed for each item, and there is no periodic inventory. Also, there are no formal written policies and procedures to provide controls over Family Planning medical supplies and drugs.

Good internal control procedures include formal written policies and procedures to address the storage, access, issuance, restocking and inventorying of Family Planning medical supplies and drugs. Logs should be maintained to show the quantities received and dispersed for each item. Additionally, a periodic inventory should be performed comparing the log to the actual inventory.

### **Recommendation**

We recommend that the Hospital develop and implement formal policies and procedures for Family Planning medical supplies and drugs that address storage, access, issuance, restocking and inventorying.

## **FINANCIAL REPORTING**

**Objective 2:** To assess the Hospital'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.

**Conclusion:** The Hospital 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 an exception with under reported cost (Finding 3).

**Finding**

**3. Under Reported Cost**

The Hospital under reported salary and fringe benefit costs for Family Planning.

Total reported expense was limited to the amount of total reported revenues from fees and collections, and grant funds. Part of the year end salary accrual was unreported, and the amount of reported fringe benefits expense was limited to the budgeted amount of 35% of salary when actual fringe benefits expense was approximately 38% of salary.

Per 2 CFR Part 230 (Office of Management and Budget Circular A-122), Appendix A, General Principles, Section A.4.a. – Allocable Costs, “A cost is allocable to a particular cost objective...in accordance with relative benefits received.”

Also, per the MDCH Grant Agreement, Part II, Section IV. C. Financial Status Report Submission, “The monthly FSR’s must reflect total actual program expenditures, regardless of the source of funds.”

The under reported expense has no effect on grant funds since the grant funds were fully used and the additional expense was paid from other resources.

**Recommendation**

We recommend that the Hospital report actual total cost for the Family Planning program, and report cost in excess of grant funds and collections as funded by other sources.

**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 Hospital.

**Conclusion:** The MDCH obligation under the Family Planning Program for fiscal year ended September 30, 2009, is \$90,008. 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.

**McKenzie Memorial Hospital  
Family Planning Program  
Statement of MDCH Grant Program Revenues and Expenditures  
10/1/08 - 9/30/09**

	<b>BUDGETED</b>	<b>REPORTED</b>	<b>AUDIT ADJUSTMENT</b>	<b>ALLOWABLE</b>
<b>REVENUES:</b>				
MDCH Grant - Family Planning	\$90,008	\$90,008 <sup>1</sup>	\$0	\$90,008
Fees & Col. - 1st & 3rd party	\$106,218	\$96,958	\$0	\$96,958
<b>TOTAL REVENUES</b>	\$196,226	\$186,966	\$0	\$186,966
<b>EXPENDITURES:</b>				
Salary and Wages	\$98,041	\$102,587	\$0	\$102,587
Fringe Benefits	\$34,314	\$35,906	\$0	\$35,906
Supplies	\$42,521	\$30,074	\$0	\$30,074
Travel	\$1,000	\$466	\$0	\$466
Other Expense	\$20,350	\$17,933	\$0	\$17,933
<b>TOTAL EXPENDITURES</b>	\$196,226	\$186,966	\$0	\$186,966

<sup>1</sup> Actual MDCH payments provided on a performance reimbursement basis.

## Corrective Action Plan

**Finding Number:** 1

**Page Reference:** 2

**Finding:** Lack of Separation of Duties in Payroll and Cash Receipting Processes  
The Hospital lacked appropriate separation of duties over the payroll preparation and cash receipting processes.

**Recommendation:** Strengthen internal controls over the payroll process by having the Finance Officer or other manager review and approve the Family Planning payroll. Also, ensure that the cash receipts logs is reviewed and initialed by both clinic staff for completeness and accuracy.

**Comments:** Prior to the audit, the Director of Community and Human Services for the Hospital already initiated review and approval of the Family Planning payroll.

**Corrective Action:** The Director of Community and Human Services continues to review and approve the Family Planning payroll. Two clinic staff will review and approve the cash receipts logs for completeness and accuracy before delivery to the hospital and entry to the general ledger.

### Anticipated

**Completion Date:** July 12, 2010

**MDCH Response:** No comment.

## Corrective Action Plan

**Finding Number:** 2

**Page Reference:** 3

**Finding:** Lack of Internal Controls Over Medical Supplies and Drugs

The Hospital lacked internal controls over Family Planning medical supplies and drugs.

**Recommendation:** Develop and implement formal policies and procedures for Family Planning medical supplies and drugs that address storage, access, issuance, restocking and inventorying.

**Comments:** Medical supplies and drugs are secured in a locked cabinet in a locked room with limited access. One employee reviews quantities regularly.

**Corrective Action:** A log will be developed and maintained to show quantities received and dispersed for each item. Also, sample policies and procedures for controls over medical supplies and drugs will be obtained and the Hospital will adapt and implement appropriate policies and procedures that address storage, access, issuance, restocking and inventorying.

**Anticipated**

**Completion Date:** October 30, 2010

**MDCH Response:** No comment.

## Corrective Action Plan

**Finding Number:** 3

**Page Reference:** 4

**Finding:** Under Reported Cost

The Hospital under reported salary and fringe benefit costs for Family Planning.

**Recommendation:** Report actual total cost for the Family Planning program, and report cost in excess of grant funds and collections as funded by other sources.

**Comments:** The audit made no adjustments affecting Family Planning grant program funding. The Hospital generally reported their Family Planning program financial activity to MDCH in accordance with applicable MDCH requirements and agreements and with generally accepted accounting principles.

**Corrective Action:** The Hospital will report actual total cost of the Family Planning program and report cost in excess of grant funds and collections as funded by the Hospital.

**Anticipated**

**Completion Date:** July 1, 2010

**MDCH Response:** No comment.