

Audit Report

McKenzie Memorial Hospital
Family Planning Program

October 1, 2010 – September 30, 2011



Office of Audit
Quality Assurance and Review
June 2012



RICK SNYDER
GOVERNOR

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

OLGA DAZZO
DIRECTOR

June 22, 2012

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, 2010 through September 30, 2011.

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, findings, and recommendations are organized by audit objective. The Corrective Action Plans include 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
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. Understated Fringe Benefit Expenses	3
2. Overstated Space Cost	3
<u>MDCH Share of Costs and Balance Due</u>	4
Statement of MDCH Grant Program Revenues and Expenditures.....	5
Corrective Action Plans	6

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 Hospital provides health services including the Family Planning Program to residents of Sanilac County. 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.

FUNDING METHODOLOGY

The Family Planning Program 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.

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, 2010 to September 30, 2011. We performed our review procedures in March 2012. Our review procedures included the following:

- Completed the 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/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 Hospital's effectiveness in establishing and implementing internal controls over the Family Planning Program.

Conclusion: The Hospital was effective in establishing and implementing internal controls over the Family Planning Program. Significant improvement was noted since the FYE 2009 audit and no exceptions were noted with respect to internal controls.

FINANCIAL REPORTING

Objective 2: To assess the Hospital'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 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 two exceptions related to reported expenditures, with one of the findings being a repeat finding from the FYE 2009 audit.

Finding

1. Understated Fringe Benefit Expenses (Repeat)

The Hospital understated fringe benefit costs for the Family Planning Program.

According to the MDCH Grant Agreement, Part II, Section IV. C. Financial Status Report Submission, “The monthly FSRs must reflect total actual program expenditures, regardless of the source of funds.” Also, 2 CFR Part 230 (Office of Management and Budget Circular A-122), Appendix A, General Principles, Section A.4.a. – Allocable costs states, “A cost is allocable to a particular cost objective...in accordance with relative benefits received.”

The Hospital charges fringe benefits to all programs based on a budgeted amount of 35%. The actual fringe benefit rate for the three Family Planning Program employees is 50.92%. As a result, the Family Planning Program was under billed \$12,160 in fringe benefits. This is a repeat finding from the FYE 2009 audit.

Due to the budget deviation allowance in the MDCH Grant Agreement, the adjustment was limited to \$11,264 as shown on the Attached Statement of MDCH Grant Program Revenues and Expenditures. Since the budgeted MDCH Grant was not fully used, the Hospital is entitled to additional funding.

Recommendation

We recommend that the Hospital adopt policies and procedures to ensure that actual fringe benefit costs for the Family Planning Program are reported.

Finding

2. Overstated Space Cost

The Hospital overstated space costs for the Family Planning Program.

According to 2 CFR Part 230 (Office of Management and Budget Circular A-122), Appendix A, General Principles, to be allowable under an award, costs must be reasonable and allocable. For costs to be allocable, they must be incurred specifically for the award, or benefit both the award and other work and can be distributed in reasonable proportion to the benefits received.

The Family Planning Program is billed \$680 monthly (\$8,160 annually) for space cost at the clinic, which was based on the prior year's actual expenses. The actual expenses for the clinical building for FYE 2011 were only \$6,110. The excess charges were neither reasonable nor allocable, and are therefore unallowable according to the Federal cost principles.

An adjustment for the \$2,050 over charge to the Family Planning Program is shown on the attached Statement of MDCH Grant Program Revenues and Expenditures. This adjustment has no impact on MDCH Grant funding due to the costs added from Finding #1.

Recommendation

We recommend that the Hospital adopt policies and procedures to ensure the space costs for the Family Planning Program are adjusted annually to actual costs.

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, 2011 is \$66,219, which is \$2,328 more than originally reported, as shown on the attached Statement of MDCH Grant Program Revenues and Expenditures. The Hospital submitted a revised final FSR and received reimbursement for the previously unreported expenditures.

McKenzie Memorial Hospital
Family Planning Program
Statement of MDCH Grant Program Revenues and Expenditures
10/1/10 - 9/30/11

	BUDGETED	REPORTED	AUDIT ADJUSTMENT	ALLOWABLE
REVENUES:				
MDCH Grant	\$66,219	\$63,891	\$2,328	\$66,219
Fees & Collections	\$74,011	\$74,715	(\$0)	\$74,715
Local Funding	\$0	\$0	\$6,886	\$6,886
TOTAL REVENUES	\$140,230	\$138,606	\$9,214	\$147,820
EXPENDITURES:				
Salary & Wages	\$80,000	\$76,388	\$0	\$76,388
Fringe Benefits	\$28,000	\$26,736	\$11,264 1	\$38,000
Supplies	\$18,000	\$22,305	\$0	\$22,305
Travel	\$40	\$0	\$0	\$0
Communications	\$2,040	\$864	\$0	\$864
Space Cost	\$8,160	\$8,160	(\$2,050) 2	\$6,110
Other Expenses	\$3,990	\$4,153	\$0	\$4,153
TOTAL EXPENDITURES	\$140,230	\$138,606	\$9,214	\$147,820

- 1** Undercharge of fringe benefit expenses (Finding 1).
2 Overcharge of space costs (Finding 2).

Corrective Action Plan

Finding Number: 1

Page Reference: 3

Finding: Understated Fringe Benefit Expenses (Repeat)

The Hospital understated fringe benefit costs for the Family Planning Program.

Recommendation: Adopt policies and procedures to ensure that actual fringe benefit costs for the Family Planning Program are reported.

Comments: We agree with the finding.

Corrective Action: The Hospital will adopt the procedure to use actual fringe benefit costs for the Family Planning Program employees.

**Anticipated
Completion Date:** 6/30/12

MDCH Comment: None

Corrective Action Plan

Finding Number: 2

Page Reference: 3

Finding: Overstated Space Cost

The Hospital overstated space costs for the Family Planning Program.

Recommendation: Adopt policies and procedures to ensure the space costs for the Family Planning Program are adjusted annually to actual costs.

Comments: We agree with the finding.

Corrective Action: The Hospital will adopt the procedure of charging the Family Planning Program for the actual cost of the space they use.

**Anticipated
Completion Date:** 6/30/12

MDCH Comment: None