

Audit Report

Planned Parenthood South Central Michigan

(Merged into Planned Parenthood Mid and South Michigan
Effective January 1, 2012)

Family Planning Program

October 1, 2010 - September 30, 2011



Office of Audit
Quality Assurance and Review
August 2013



RICK SNYDER
GOVERNOR

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

JAMES K. HAVEMAN
DIRECTOR

August 27, 2013

Lori Lamerand/CEO
Planned Parenthood Mid and South Michigan
P.O. Box 3673
Ann Arbor, Michigan 48106

Dear Ms. Lamerand:

Enclosed is our final report from the Michigan Department of Community Health (MDCH) audit of the Planned Parenthood South Central Michigan 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; 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

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DESCRIPTION OF AGENCY

Planned Parenthood South Central Michigan (Agency) was organized as a non-profit agency under the provisions of Section 501(c)(3) of the Internal Revenue Code. The Agency's administrative office was located in Kalamazoo, Michigan. The Agency operated under the legal supervision and control of its Board of Directors. The Agency provided Family Planning Program services at six clinics located in central and southern Michigan in the cities of Kalamazoo, Battle Creek, Sturgis, Three Rivers, Coldwater, and Hillsdale. The clinics served Title X as well as non-Title X clients. The Agency merged into Planned Parenthood Mid and South Michigan effective January 1, 2012.

FUNDING METHODOLOGY

The Planned Parenthood South Central Michigan Family Planning Program services were 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 provided the Agency 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 was subject to performance requirements. That is, reimbursement from MDCH was based upon the understanding that a certain level of performance (measured in caseload established by MDCH) had to 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 Agency's effectiveness in establishing and implementing internal controls over the Family Planning Program.
2. To assess the Agency'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 assess the Agency's effectiveness in separating the cost of Title X services and non-Title X services.
4. 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 Agency.

SCOPE AND METHODOLOGY

We examined the Agency's Family Planning records and activities for the fiscal period October 1, 2010 to September 30, 2011. Our review procedures included the following:

- Reviewed the most recent Agency 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 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 Agency's effectiveness in establishing and implementing internal controls over the Family Planning Program.

Conclusion: The Agency was generally effective in establishing and implementing internal controls over the Family Planning Program. However, the sliding fee scale was not properly applied to all clients (Finding 1), and college loans and grants were improperly included as clients' income when applying the sliding fee scale (Finding 2).

Finding

1. Errors in Applying Sliding Fee Scale

The Agency did not always properly apply the sliding fee scale when determining the appropriate patient charges for services rendered under the Title X program.

The Michigan Title X Family Planning Standards and Guidelines, Section 6.3.1, require the development and implementation of a schedule of discounts for individuals with family incomes between 101% and 250% of the Federal poverty level. Individual eligibility for a discount must be documented in the client's record/file.

Twenty five clients' encounters from 10/1/12 to 10/27/12 along with income and family size were reviewed and it was determined the Agency failed to properly charge three clients for the services they received based on the sliding fee scale. This issue was also reported in the Agency's 2011 Single Audit and the MDCH Family Planning Division site review from 2009.

According to the response to the 2011 Single Audit, all former Planned Parenthood of South Central staff members were trained and tested for proficiency in determining the appropriate patient charges for services rendered under the Title X program using the approved sliding fee scale in combination with the required Federal Poverty Guidelines, and the system is further audited through an internal review of fee assessments on a regular basis. However, it does not appear these actions have been effective in resolving this issue.

Recommendation

We recommend Planned Parenthood Mid and South Michigan implement a training program to ensure that Patient Data Sheets are filled out correctly and the sliding fee scale is properly applied. Additionally, to ensure proper application, Planned Parenthood Mid and South Michigan should perform periodic reviews of fee assessments.

Finding

2. Improperly Including Student Loans and Grants as Income

The Agency improperly uses student loan and grant income in determining client's income when applying the sliding fee scale.

During the review of twenty five Patient Data Sheets from 10/1/12 to 10/27/12, it was found that three clients who were college students included their grants and loans as part of their income. As a consequence, these clients were improperly charged 50% for the services they received when they should have received a 100% discount.

The Office of Population Affairs Region V guidance for determining household income for students is as follow:

Income that is for living expenses can be considered as income: wages from employment, tips, allowances from family, investments over which the student has control, stipends for work at school, work-study, and the portion of scholarships and fellowships that are for living expenses. The amount of scholarships, fellowships, tuition grants and loans that are for educational expenses (tuition, fees, books, supplies and equipment required for courses) are not to be considered income.

Recommendation

We recommend Planned Parenthood Mid and South Michigan amend policies and forms as needed to ensure the amount of scholarships, fellowships, grants and student loans that are for education expenses are not considered income.

FINANCIAL REPORTING

Objective 2: To assess the Agency'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 Agency 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, it was noted that the Agency used an unapproved method for allocating salaries (Finding 3), and expense items were misclassified on the FSR (Finding 4).

Finding

3. Unapproved Salary Allocation Methodology

The Agency allocates salaries for each clinic based on the Relative Value Units (RVUs) of program services as a percentage of the total RVUs of all services at each individual clinic rather than the actual activity of each employee, and this method has not been approved by the cognizant agency as required.

The Agency's contract with MDCH (Part II, Section III. A.) requires compliance with OMB Circular A-122 (located at 2 CFR Part 230). OMB Circular A-122, Appendix B, Section 8.m., states:

Support of salaries and wages.

- (1) Charges to awards for salaries and wages, whether treated as direct costs or indirect costs, will be based on documented payrolls approved by a responsible official(s) of the organization. The distribution of salaries and wages to awards must be supported by personnel activity reports, as prescribed in subparagraph (2), except when a substitute system has been approved in writing by the cognizant agency.*
- (2) Reports reflecting the distribution of activity of each employee must be maintained for all staff members (professionals and nonprofessionals) whose compensation is charged, in whole or in part, directly to awards. In addition, in order to support the allocation of indirect costs, such reports must also be maintained for other employees whose work involves two or more functions or activities if a distribution of their compensation between such functions or activities is needed in the determination of the organization's indirect cost rates(s) (e.g., an employee engaged part-time in indirect cost activities and part-time in a direct function). Reports maintained by non-profit organizations to satisfy these requirements must meet the following standards:*

- (a) *The reports must reflect an after-the-fact determination of the actual activity of each employee. Budget estimates (i.e., estimates determined before the services are performed) do not qualify as support for charges to awards.*
- (b) *Each report must account for the total activity for which employees are compensated and which is required in fulfillment of their obligations to the organization.*
- (c) *The reports must be signed by the individual employee, or a responsible supervisory official having first hand knowledge of the activities performed by the employee, that the distribution of activity represents a reasonable estimate of the actual work performed by the employee during the periods covered by the reports.*
- (d) *The reports must be prepared at least monthly and must coincide with one or more pay periods.*

No personnel activity reports that reflect the actual activity of each employee are prepared, and the substitute system for allocating salary and wage expenses has not been approved in writing by the cognizant agency.

Recommendation

We recommend that Planned Parenthood Mid & South Michigan adopt policies and procedures to comply with the Federal cost principles by requiring employees to complete personnel activity reports showing time spent on Title X and non-Title X activities, and allocating the personnel costs (including fringes) according to the distributions shown on the personnel activity reports; or obtain written approval from the cognizant agency for any substitute system.

Finding

4. Misclassification of Expenditures

The Agency misclassified expenditure items on the final FSR.

The Agency's contract with MDCH (Part II, Section IV. C.) requires the completion of the FSR according to the Financial Status Report Form Preparation Instructions, which includes a description of expenditures to report in each category. However, the Agency did not follow these instructions and reported some expenditure items in the wrong categories. For example, contractual costs were improperly reported in supplies; printing expenditures were improperly reported in other costs; and some travel expenses were improperly reported in other costs.

Adjustments to properly classify expenditures are shown on the attached Statement of MDCH Grant Program Revenues and Expenditures. This is presented for informational purposes only. There is no impact on MDCH funding. However, appropriate reporting by category is important for program administration.

Recommendation

As recommended in the 2010 audit report for Planned Parenthood Mid and South Michigan (issued March 28, 2012), Planned Parenthood Mid and South Michigan must take action to ensure the final FSR is completed in accordance with the Financial Status Report Form Preparation Instructions.

SEPARATION OF TITLE X AND NON-TITLE X EXPENSES

Objective 3: To assess the Agency's effectiveness in separating the cost of Title X services and non-Title X services.

Conclusion: The Agency was effective in separating Title X and non-Title X expenses. No exceptions were noted.

MDCH SHARE OF COSTS AND BALANCE DUE

Objective 4: 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 Agency.

Conclusion: The MDCH obligation under the Family Planning Program for fiscal year ended September 30, 2011, is \$604,219. The attached Statement of MDCH Grant Program Revenues and Expenditures shows the budgeted, reported, and allowable costs. The audit made no adjustments affecting FP grant program funding.

**Planned Parenthood South Central Michigan
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	\$604,219	\$604,219 ¹	\$0	\$604,219
Fees & Collections	\$1,106,706	\$1,137,723	\$0	\$1,137,723
Local Funds Other	\$148,531	\$131,213	\$0	\$131,213
Miscellaneous Income	\$0	\$0	\$0	\$0
TOTAL REVENUES	\$1,859,456	\$1,873,155	\$0	\$1,873,155
EXPENDITURES:				
Salary and Wages	\$819,679	\$921,221	\$0	\$921,221
Fringe Benefits	\$200,821	\$183,453	\$0	\$183,453
Supplies	\$505,615	\$409,012	(\$81,695) ²	\$327,317
Travel	\$10,235	\$15,987	\$21,449 ²	\$37,436
Communications	0	\$0	\$0	\$0
Other Expense	\$323,106	\$343,482	\$60,246 ²	\$403,728
Admin Overhead	\$0	\$0	\$0	\$0
Nursing Supervision	\$0	\$0	\$0	\$0
TOTAL EXPENDITURES	\$1,859,456	\$1,873,155	\$0	\$1,873,155

¹ Actual MDCH payments provided on the performance reimbursement basis.

² Misclassification of expenses (Finding 4).

Corrective Action Plan

Finding Number: 1

Page Reference: 2

Finding: Errors in Applying Sliding Fee Scale

The Agency did not always properly apply the sliding fee scale when determining the appropriate patient charges for services rendered under the Title X program.

Recommendation: Implement a training program to ensure that Patient Data Sheets are filled out correctly and the sliding fee scale is properly applied. Additionally, to ensure proper application, perform periodic reviews of fee assessments.

Agency Comments: When Planned Parenthood Mid and South Michigan began managing the operations in the Kalamazoo and Battle Creek health centers, we immediately recognized that there was a gap in the employees' training about implementing the sliding fee scale. As a result, the entire staff was retrained to better understand how to properly assess and apply the fee scale to patients and record it accurately in the record. Those health centers then integrated into the audit schedule that we utilize to ensure that the fee scale is being applied appropriately. We combine record auditing along with supervisor observation of staff members while they interact with patients. We further audit to ensure that the paper patients encounter form matches the electronic record that is used when patients "check out" after their visit. The result is that those audits now show performance with an acceptable error rate.

Corrective Action: Training, record auditing, supervisor observation, and comparison of paper encounter forms to the electronic record.

**Anticipated
Completion Date:** 10/1/2011

MDCH Response: None

Corrective Action Plan

Finding Number: 2

Page Reference: 3

Finding: **Improperly Including Student Loans and Grants as Income**

The Agency improperly uses student loan and grant income in determining client's income when applying the sliding fee scale.

Recommendation: Amend policies and forms as needed to ensure the amount of scholarships, fellowships, grants and student loans that are for education expenses are not considered income.

Agency Comments: We believe that this issue has been addressed through additional training and procedures that conform to Planned Parenthood Mid and South Michigan standards, and audits show success.

Corrective Action: Training, record auditing, supervisor observation, and comparison of paper encounter forms to the electronic record.

**Anticipated
Completion Date:** 10/1/2011

MDCH Response: None

Corrective Action Plan

Finding Number: 3

Page Reference: 4

Finding: Unapproved Salary Allocation Methodology

The Agency allocates salaries for each clinic based on the Relative Value Units (RVUs) of program services as a percentage of the total RVUs of all services at each individual clinic rather than the actual activity of each employee, and this method has not been approved by the cognizant agency as required.

Recommendation: Adopt policies and procedures to comply with the Federal cost principles by requiring employees to complete personnel activity reports showing time spent on Title X and non-Title X activities, and allocating the personnel costs (including fringes) according to the distributions shown on the personnel activity reports; or obtain written approval from the cognizant agency for any substitute system.

Agency Comments: For many years prior to this finding, Planned Parenthood Mid and South Michigan had requested guidance from MDCH on this issue. When we were made aware of this, again during an ongoing audit, we began to modify our system to fit the approved methodology. The specified methodology is cumbersome and inelegant at best, but will be fully implemented by 09/30/2013.

Corrective Action: Implementation of a personnel cost allocation methodology that distributes personnel costs (including fringes) according to distributions shown on personnel activity reports.

Anticipated Completion Date: 9/30/13

MDCH Response: None

Corrective Action Plan

Finding Number: 4

Page Reference: 5

Finding: Misclassification of Expenditures

The Agency misclassified expenditure items on the final FSR.

Recommendation: As recommended in the 2010 audit report for Planned Parenthood Mid and South Michigan (issued March 28, 2012), take action to ensure the final FSR is completed in accordance with the Financial Status Report Form Preparation Instructions.

Agency Comments: As we indicated in the response to your findings under the Planned Parenthood Mid and South Michigan audit, we have a much better understanding how MDCH wants costs classified and will work to correct these errors in the future.

Corrective Action: Expenses are being classified in accordance with the guidance received during the audit.

**Anticipated
Completion Date:** 10/1/2011

MDCH Response: None