

Audit Report

Planned Parenthood of West and Northern Michigan

Family Planning Program

October 1, 2010 – September 30, 2011



Office of Audit
Quality Assurance and Review
January 2013



RICK SNYDER
GOVERNOR

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

JAMES K. HAVEMAN
DIRECTOR

January 14, 2013

Kathy Humphrey, CEO
Planned Parenthood West and Northern Michigan
425 Cherry Street S.E.
Grand Rapids, Michigan 49503

Dear Ms. Humphrey:

Enclosed is our final report from the Michigan Department of Community Health (MDCH) audit of the Planned Parenthood West and Northern 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

The Planned Parenthood of West and Northern Michigan, Inc. (Agency) is organized as a non-profit agency under the provisions of Section 501(c)(3) of the Internal Revenue Code. The Agency's administrative office is located in Grand Rapids, Michigan. The Agency operates under the legal supervision and control of its Board of Directors. The Agency provides Family Planning Program services at eight clinics in Grand Rapids, Wyoming, Big Rapids, Ionia, Petoskey, Traverse City, Marquette, and Muskegon. The clinics service Title X as well as non-Title X clients.

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). MDCH provides 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 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 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 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 Program 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.
- 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 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, we noted exceptions related to financial reporting that are addressed under the Financial Reporting objective.

FINANCIAL REPORTING

Objective 2: To assess the Agency'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 Agency 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 found exceptions related to the methodology used to allocate salaries and fringe benefits (Finding 1), the classification of contract labor (Finding 2), and the Administrative Overhead allocation (Finding 3).

Finding

1. Unapproved Salaries and Fringe Benefits Allocation Methodology

The Agency allocates salaries and fringe benefits based on the number of Title X visits as a percentage of the total number of visits rather than the actual activity of each employee, and this method has not been approved by the cognizant agency as required.

No personnel activity reports are prepared by the employees whose work requires that they handle both Title X and non-Title X clients. Rather, the employees' salaries and fringe benefits are allocated based on client visits.

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 (professional and nonprofessional) 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 report 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 report 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.*

Recommendation

We recommend that the Agency adopt policies and procedures to comply with the Federal cost principles by requiring employees to complete personnel activity reports based on time spent on Title X and non-Title X activities, and allocating the personnel costs according to the distributions shown on the personnel activity reports; or obtain written approval from the cognizant agency for any substitute system.

Finding

2. Contract Labor Improperly Reported as Salaries and Wages

The Agency improperly reported the Contract Labor and contracted Medical Director as Salaries and Wages on their Financial Status Report (FSR).

The Financial Status Report Form Preparation Instructions state the following with respect to expenditure reporting:

***Salaries and Wages** – This category includes the compensation paid to all permanent and part-time employees on the payroll of the local agency and assigned directly to the program. This **does not** include contractual services, professional fees or personnel hired on a private contract basis.*

***Contractual (Sub-Contracts)** – Use for written contracts or agreements with **secondary recipient organizations** such as affiliates, cooperating institutions or delegate agencies. Payments to individuals such as stipends, allowances for trainees and consulting fees are to be identified in the **Other Expenses** category.*

The total amount of Contract Labor and contracted Medical Director costs improperly classified was \$51,441. Adjustments moving \$51,441 from Salaries and Wages to Other Expenses are shown on the attached Statement of MDCH Grant Program Revenues and Expenditures.

Recommendation

We recommend that the Agency adopt policies and procedures to ensure that all expenses are properly classified on FSRs according to the Financial Status Report Form Preparation Instructions.

Finding

3. Understated Administrative Overhead Cost Pool and Improper Allocation

The Agency understated the Administrative Overhead cost pool, and improperly used planned (budgeted) Title X visits to allocate Administrative Overhead costs to the Title X Program.

The Agency allocates Administrative Overhead to each of their eight clinics based on the number of visits at each clinic compared to the total number of visits. At the clinic level, Administrative Overhead is allocated to Title X based on planned (budgeted) visits. The amount of Administrative Overhead allocated includes only 92% of the CEO's salary and benefits, 76% of printing expense, 90% of postage expense, 75% of rent expense, 97% of accounting and audit fees, and 50% of equipment leases. No explanation was provided to indicate why only a portion of these expenses was used in the allocation. Additionally, several other expense categories that appear allowable (office supplies, maintenance and repairs, insurance, telephone, travel, and training) were excluded from the Administrative Overhead allocation.

The Agency's contract with MDCH (Part II, Section IV. C.) requires that the FSR reflect total actual program expenditures. Also, 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 defines total cost as the sum of allowable direct and allocable indirect costs. Allocable indirect costs are those that provide benefit to the program, and they must be distributed in reasonable proportion to the benefits received. All indirect costs that provide benefit to the Family Planning Program should be included in the Administrative Overhead cost pool. Also, the cost pool should be distributed based on actual results rather than budgeted plans to better ensure the allocated indirect costs are distributed in reasonable proportion to the benefits received.

The understated Administrative Overhead cost pool resulted in an understatement of Other Expenses. The use of budgeted visits to distribute Administrative Overhead costs appears to have had little impact. Adjustments are not being made on the Statement of MDCH Grant Program Revenues and Expenditures since there would be no impact on MDCH funding since the grant was fully expended.

Recommendation

We recommend that the Agency adopt policies and procedures to ensure that the Administrative Overhead cost pool includes all costs allowable under OMB Circular A-122, and the cost pool is distributed based on actual results rather than budgeted plans.

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 Agency.

Conclusion: The MDCH obligation under the Family Planning Program for fiscal year ended September 30, 2011, is \$974,260. 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.

**Planned Parenthood West & Northern 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	\$974,260	\$974,260 ¹	\$0	\$974,260
Fees & Collections	\$1,119,351	\$1,279,738	(\$248) ³	\$1,279,490
Other Misc Revenue	\$0	\$0	\$263 ³	\$263
Local Funds	\$0	\$75,270	(\$15) ³	\$75,255
TOTAL REVENUES	\$2,093,611	\$2,329,268	\$0	\$2,329,268
EXPENDITURES:				
Salary & Wages	\$1,052,411	\$1,269,942	(\$51,441) ²	\$1,218,501
Fringe Benefits	\$221,858	\$242,484	\$0	\$242,484
Supplies	\$352,065	\$356,998	\$0	\$356,998
Travel	\$15,778	\$21,059	\$0	\$21,059
Communications	\$0	\$0	\$0	\$0
Admin Overhead	\$0	\$0	\$0	\$0
Other Expenses	\$451,499	\$438,785	\$51,441 ²	\$490,226
Director Allocation	\$0	\$0	\$0	\$0
Space Cost	\$0	\$0	\$0	\$0
TOTAL EXPENDITURES	\$2,093,611	\$2,329,268	\$0	\$2,329,268

- ¹ Actual MDCH payments provided on a performance reimbursement basis.
² Contract labor included in salaries and wages (Finding 2).
³ Minor reconciling differences.

Corrective Action Plan

Finding Number: 1

Page Reference: 3

Finding: Unapproved Salaries and Fringe Benefits Allocation Methodology

The Agency allocates salaries and fringe benefits based on the number of Title X visits as a percentage of the total number of visits 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 based on time spent on Title X and non-Title X activities, and allocating the personnel costs according to the distributions shown on the personnel activity reports; or obtain written approval from the cognizant agency for any substitute system.

Corrective Action: The Vice-President of Finance and Vice-President of Medical Services will be working together to formulate a way to either: a) have employees track activity that is in compliance with OMB Circular A-122, Appendix B, Section 8.m.; or b) have a substitute methodology submitted to MDCH for written approval.

Anticipated Completion Date: April 2013. The same methodology was repeated during the 2011-2012 fiscal year, so changes will be reflected in the 2012-2013 fiscal year.

MDCH Response: None.

Corrective Action Plan

Finding Number: 2

Page Reference: 4

Finding: Contract Labor Improperly Reported as Salaries and Wages

The Agency improperly reported the Contract Labor and contracted Medical Director as Salaries and Wages on their Financial Status Report (FSR).

Recommendation: Adopt policies and procedures to ensure that all expenses are properly classified on FSRs according to the Financial Status Report Form Preparation Instructions.

Corrective Action: Contractual labor is not being reported in the Salary and Wage section of the FSR. These expenses are now being reported in the Other Expenses category on the FSR.

**Anticipated
Completion Date:** October 1, 2012

MDCH Response: None.

Corrective Action Plan

Finding Number: 3

Page Reference: 5

Finding: Understated Administrative Overhead Cost Pool and Improper Allocation

The Agency understated the Administrative Overhead cost pool, and improperly used planned (budgeted) Title X visits to allocate Administrative Overhead costs to the Title X Program.

Recommendation: Adopt policies and procedures to ensure that the Administrative Overhead cost pool includes all costs allowable under OMB Circular A-122, and the cost pool is distributed based on actual results rather than budgeted plans.

Comments: This is an area that was not able to be definitively explained during the audit process due to staff turnover and lack of documentation of how some expenses and/or percentages were calculated.

Corrective Action: The Vice-President of Finance and Accounting Manager will be reviewing the A-122 and A-133 circulars to create an administrative overhead and cost allocation plan that are in compliance with both of these circulars.

Anticipated Completion Date: March 2013 for the 2012-2013 fiscal year. The 2011-2012 fiscal year has the same overhead and allocation methodology.

MDCH Response: None.

Comments and Recommendations

1. Expired Lease Agreement with Ionia Clinic

The Agency has eight clinics that are either owned or leased. The lease agreement at the Ionia clinic expired 9/30/2007. We recommend the Agency negotiate a current lease agreement with the Ionia County Board of Commissioners.

Management Response: The Agency has had a longstanding, positive working relationship with the Ionia County Health Department (ICHHD) to provide family planning services to the citizens of Ionia County. We are aware that the latest lease between the Agency and ICHHD expired in 2007. Since that time, we have continued to provide services and to operate in compliance with the terms of said lease. Moving forward, we will strive to continue to meet community needs while working together with ICHHD regarding leased space within the context of need, available resources and the imminent implementation of the Affordable Care Act.

MDCH Response: Efforts should be made to negotiate a current lease agreement so terms and conditions are in writing and enforceable. This recommendation is intended to protect the interests of the Agency.

2. Client Incorrectly Charged for Services

The latest site review by the MDCH Division of Family and Community Health noted that a client with no reported income was incorrectly assigned to the 50% pay category on the sliding fee scale, and recommendations were made for staff training and policy development for criteria for private pay versus Title X. During the current fiscal review, we also noted that another client with no income was charged 25% for services provided. We recommend the Agency review the income assessment and fee assignment requirements with personnel responsible for these duties to ensure that clients are being charged the proper amounts.

Management Response: The Vice-President of Medical Services is going to make sure this is an agenda item of the Medical Services Team staff meetings. In addition, this area will be an audit item for compliance within our Quality and Risk Management Program.