

Audit Report

MGH Family Health Center
d/b/a Muskegon Family Care
Family Planning Program

October 1, 2007 – September 30, 2008



Office of Audit
Quality Assurance and Review Section
November 2009



JENNIFER M. GRANHOLM
GOVERNOR

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

JANET OLSZEWSKI
DIRECTOR

November 5, 2009

Gwen Williams, Director of Community Services
MGH Family Health Center
2201 S. Getty Street
Muskegon Heights, Michigan 49444

Dear Ms. Williams:

Enclosed is our final report from the Michigan Department of Community Health (MDCH) audit of the MGH Family Health Center Family Planning Program for the period October 1, 2007 through September 30, 2008.

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; Corrective Action Plans; and Schedule of Costs vs. Amounts Billed for Services and Supplies. The conclusions, findings, and recommendations are organized by audit objective. The Corrective Action Plans include the agency's 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 MGH Family Health Center (“the Center”) is organized as a not-for-profit agency, under the provisions of 501(c)(3) of the Internal Revenue Code. The Center’s Administrative Office is located in Muskegon, Michigan. The Center operates under the legal supervision and control of its Board of Directors. The Center provides a wide variety of medical care and other health services including family planning services to residents of Muskegon County.

FUNDING METHODOLOGY

The Center’s services are funded from local sources, fees and collections, and grant programs administered through the Michigan Department of Community Health (MDCH), which consist of federal and state funds. MDCH provides the Center 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, and 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 Center’s effectiveness in establishing and implementing internal controls over the Family Planning Program.
2. To assess the Center’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 Center.

SCOPE AND METHODOLOGY

We examined the Center's records and activities for the fiscal period October 1, 2007 to September 30, 2008. Our review procedures included the following:

- Reviewed the most recent Center 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.
- Tested a sample of expenditures for program compliance, and policy and approval procedures.
- Reviewed indirect cost and 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 Center's effectiveness in establishing and implementing internal controls over the Family Planning Program.

Conclusion: The Center was generally effective in establishing and implementing internal controls over the Family Planning Program. However, we noted exceptions with written policies (Finding 1).

Finding

1. Lack of Comprehensive Travel Policy and Formal Policy for Drugs and Supplies

The Center lacks a comprehensive travel policy and a formal policy for Family Planning Program drugs and supplies.

The travel policy does not include the approved mileage reimbursement rate, and states that reimbursement will be made for "costs of meals up to \$40.00 per day, not including alcoholic beverages." The travel policy should address individual meal rates, the approved mileage reimbursement rate, and unallowable costs.

Although good practices are in place for the security and separation of duties for ordering, receiving, stocking and inventorying Family Planning Program drugs and supplies, the Center does not have a formal policy that addresses these items.

Recommendation

We recommend that the Center implement a comprehensive travel policy and a formal policy for Family Planning drugs and supplies.

FINANCIAL REPORTING

Objective 2: To assess the Center'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 Center 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 exceptions with the indirect cost allocation (Finding 2) and billing rates (Finding 3).

Finding

2. Reported Indirect Cost Based on Budget

The Center reported indirect cost on the final Financial Status Report (FSR) based on budget instead of actual final cost.

Per 2 CFR Part 230 (formerly Office of Management and Budget Circular A-122), Attachment A, General Principles A. 4. Allocable Costs, a. a cost is allocable to a particular cost objective, such as a grant, contract, project, service, or other activity, in accordance with the relative benefits received. A cost is allocable to a Federal award if it is treated consistently with other costs incurred for the same purpose in like circumstances and if it:

- (1) Is incurred specifically for the award.
- (2) Benefits both the award and other work and can be distributed in reasonable proportion to the benefits received, or
- (3) Is necessary to the overall operation of the organization, although a direct relationship to any particular cost objective cannot be shown.

The Center reported indirect cost based on budget rather than computing the Family Planning Program share of actual final cost.

The potential effect of the variance was not determined, but would not affect the Family Planning program grant funding as shown on the attached Statement of MDCH Grant Program Revenues and Expenditures since the grant funds were already fully spent. However, it is important to recognize the total actual cost incurred in operating individual programs.

Recommendation

We recommend that the Center report indirect cost based on final actual cost.

Finding

3. Billing Rates Not Sufficient to Recover Cost

The Center used billing rates for family planning services and supplies that were generally too low to recover cost, and charged rates to third party payers that were higher than the rates charged to clients. Clients from households with an annual income that exceeded 250 % of the poverty guideline were not charged for the reasonable cost of providing services as required by Title X regulations.

For our test, we multiplied the billing rate for each service and supply times the number of times each service/supply was provided during the year. This determined the maximum annual recovery if every client was billed (and paid) the maximum amount billable per the fee schedule. When this was compared to the total reported cost of \$416,954 we found the rates used would not recover approximately \$250,000 of the cost (see Schedule of Costs vs. Amounts Billed for Services and Supplies).

Title X regulations at 42CFR59.5 (a) state, in part:

... Each project supported under this part must:

... (8) Provide that charges will be made for services to persons other than those from low-income families in accordance with a fee schedule of discounts based on ability to pay, except that charges to persons from families whose annual income exceeds 250 percent of the levels set forth in the most recent Poverty Guidelines...will be made in accordance with a schedule of fees designed to recover the reasonable cost of providing services....

Because the Center's fee schedule cannot recover the total cost of services and supplies, amounts charged to persons from families whose annual income exceeds 250 percent of the Poverty Guidelines will not recover the reasonable cost of providing services.

Recommendation

We recommend that the Center comply with the Title X regulations by increasing its billing rates to an amount that is sufficient to recover the reasonable cost of services, and that these rates be consistently billed to all clients and payers.

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 Center.

Conclusion: The MDCH obligation under the Family Planning Program for fiscal year ended September 30, 2008, is \$182,996. 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.

**MGH Family Health Center
d/b/a Muskegon Family Care
Family Planning Program
Statement of MDCH Grant Program Revenues and Expenditures
10/1/07 - 9/30/08**

	BUDGETED	REPORTED	AUDIT ADJUSTMENT	ALLOWABLE
REVENUES:				
MDCH Grant	\$182,996	\$182,996 ¹	\$0	\$182,996
Fees, Collections & Local	\$315,370	\$233,957	\$0	\$233,957
TOTAL REVENUES	\$498,366	\$416,953	\$0	\$416,953
EXPENDITURES:				
Salary and Wages	\$220,222	\$182,801	\$0	\$182,801
Fringe Benefits	\$61,662	\$51,184	\$0	\$51,184
Supplies	\$82,101	\$70,195	\$0	\$70,195
Travel	\$7,500	\$1,267	\$0	\$1,267
Contractual	\$15,048	\$11,010	\$0	\$11,010
All Other	\$111,833 ²	\$100,496 ²	\$0	\$100,496
TOTAL EXPENDITURES	\$498,366	\$416,953	\$0	\$416,953

1 Actual MDCH payments provided on a performance reimbursement basis.

2 Includes Indirect Cost of \$58,733. See Finding # 2.

Corrective Action Plan

Finding Number: 1

Page Reference: 2

Finding: Lack of Comprehensive Travel Policy and Formal Policy for Drugs and Supplies

The Center lacks a comprehensive travel policy and a formal policy for Family Planning Program drugs and supplies.

Recommendation: Implement a comprehensive travel policy and a formal policy for Family Planning Program drugs and supplies.

Comments: The Center has decided to terminate Family Planning Title X Services effective November 7, 2009.

Corrective Action: NA

**Anticipated
Completion Date:** NA

MDCH Response: NA

Corrective Action Plan

Finding Number: 2

Page Reference: 3

Finding: Reported Indirect Cost Based on Budget

The Center reported indirect cost on the final Financial Status Report (FSR) based on budget instead of actual final cost.

Recommendation: Report indirect cost based on final actual cost.

Comments: The Center has decided to terminate Family Planning Title X Services effective November 7, 2009.

Corrective Action: NA

**Anticipated
Completion Date:** NA

MDCH Response: NA

Corrective Action Plan

Finding Number: 3

Page Reference: 4

Finding: Billing Rates Not Sufficient to Recover Cost

The Center used billing rates for family planning services and supplies that were generally too low to recover cost, and charged rates to third party payers that were higher than the rates charged to clients. Clients from households with an annual income that exceeded 250 % of the poverty guideline were not charged for the reasonable cost of providing services as required by Title X regulations.

Recommendation: Comply with the Title X regulations by increasing billing rates to an amount that is sufficient to recover the reasonable cost of services, and consistently bill these rates to all clients and payers.

Comments: The Center has decided to terminate Family Planning Title X Services effective November 7, 2009.

Corrective Action: NA

**Anticipated
Completion Date:** NA

MDCH Response: NA

**Muskegon Family Care
Family Planning Program
Schedule of Costs vs. Amounts Billed for Services and Supplies**

<u>Description</u>	<u>Number</u>	<u>Fee</u>	<u>Total</u>
1st Time Patient Exams	263	\$71	\$18,673
Annual Exams	1025	\$58	\$59,450
Counseling/Supply Visits	1342	\$15	\$20,130
Pregnancy Test	322	\$7	\$2,206
Pap Test	1148	\$11	\$12,628
Vag Smear	1089	\$7	\$7,460
Depos	188	\$26	\$4,935
Nuva Rings	175	\$32	\$5,513
Oral Contraceptives	3862	\$7	\$26,455
IUD's	22	\$206	\$4,528
Zithromax	192	\$16	\$3,024
Vitamins	214	\$2	\$342
Emer. Contraceptive	99	\$9	\$936
Potential Fees and Collections			<u>\$166,278</u>
Total Reported Family Planning Expenses			<u>\$416,954</u>