

Audit Report

Planned Parenthood Mid and South Michigan Family Planning Program

October 1, 2009 - September 30, 2010



Office of Audit
Quality Assurance and Review
March 2012



RICK SNYDER
GOVERNOR

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

OLGA DAZZO
DIRECTOR

March 28, 2012

Lori Lamerand, President/CEO
Planned Parenthood Mid and South Michigan
3100 Professional Drive
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 Mid and South Michigan Family Planning Program for the period October 1, 2009 through September 30, 2010.

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, and the Office of Audit's response to those comments where necessary.

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

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DESCRIPTION OF AGENCY

Planned Parenthood Mid and South Michigan (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 Ann Arbor, Michigan. The Agency operates under the legal supervision and control of its Board of Directors. The agency provides Family Planning Program services at fifteen clinics located in central and southern Michigan in the cities of Ann Arbor (two clinics), Benton Harbor, Brighton, Burton, Detroit, East Lansing, Flint, Jackson, Lansing, Livonia, Owosso, Saginaw, Warren, and Ypsilanti. The clinics serve Title X as well as non-Title X clients.

FUNDING METHODOLOGY

The Planned Parenthood Mid and South Michigan Family Planning Program 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 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 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, 2009 to September 30, 2010. 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 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, several financial reporting exceptions were noted that require corrective action as 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 MDCH requirements and agreements, applicable federal standards, and generally accepted accounting principles.

Conclusion: The Agency did not report their Family Planning Program financial activity to MDCH in accordance with applicable MDCH requirements and agreements, applicable federal standards, and generally accepted accounting principles. We noted that the FSR did not include the audit adjustments (Finding 1), expenditure and revenue items were misclassified (Finding 2), an improper distribution base was used to allocate administrative costs (Finding 3), and some cost allocations were not supported (Finding 4).

Finding

1. FSR Does Not Include Audit Adjustments

The Agency completed and submitted their final FSR prior to recording audit adjustments resulting in an understatement of \$167,755 in Family Planning Program expenditures.

The Agency’s contract with MDCH requires that the FSR reflect total actual program expenditures, regardless of the source of funds according to Part II, Section IV. C. Additionally, the Agency’s contract with MDCH (Part II, Section III. A.) requires compliance with OMB Circular A-122 (located at 2 CFR Part 230), which requires reported costs to be determined in accordance with generally accepted accounting principles (GAAP). Accordingly, total actual program expenditures, including auditor adjustments in compliance with GAAP, must be reported on the final FSR.

The attached Statement of MDCH Grant Program Revenues and Expenditures includes the audit adjustments increasing reported expenditures by \$167,755 and local funds by the same amount. There was no impact on MDCH Grant funds since the grant was already fully expended.

Recommendation

We recommend the Agency adopt policies and procedures to ensure the final FSR includes all year end adjustments.

Finding

2. Misclassification of Expenditures and Revenue

The Agency misclassified numerous expenditure and revenue 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 and revenues to report in each category. However, the Agency did not follow these instructions and reported numerous expenditure items and donations in the wrong categories. For example, audit fees were improperly reported in Salaries & Wages; printing expenditures were improperly reported in Travel; bank fees, meals, stipends, and building costs were improperly reported in Supplies & Materials; and PPFA dues, equipment, insurance, office supplies and training expenditures were improperly reported in Patient Care. Additionally, the Agency reported client donations as Local rather than Fees & Collections as required.

The misclassifications resulted in significantly over/(under) reported expenditures by category as follows:

Salaries & Wages	\$53,057
Supplies & Materials	10,914
Travel	9,775
Other	(343,966)
Occupancy	18,052
Patient Care	252,168

Adjustments to properly classify expenditures and revenue are shown on the attached Statement of MDCH Grant Program Revenues and Expenditures. After properly classifying expenditures, the Other Expenses line total of \$387,633 far exceeds the budgeted amount of \$42,222. Even though the budget deviation parameter contained in the contract was far exceeded after properly classifying expenditures, there is no impact on MDCH Grant funds due to the level of local funding used.

It is apparent that not all Family Planning related expenditures (i.e. audit, bank fees, billing services, dues, and insurance) were considered when developing the line item budget. When developing future line item budgets, the Agency should take greater care to identify all expenditures to ensure full disclosure of applicable expenditures, and to avoid potential budget deviation problems.

Recommendation

We recommend the Agency adopt policies and procedures to ensure the final FSR is completed in accordance with the Financial Status Report Form Preparation Instructions. Additionally, we recommend the Agency take action to ensure all applicable costs are identified when developing future line item budgets for the Family Planning Program.

Finding

3. Improper Administrative Cost Distribution Base

The Agency improperly allocated administrative costs to programs based on a percentage of program revenue in relation to total agency revenue.

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 states that for costs to be allowable, costs must be allocable in accordance with relative benefits received. In other words, costs must be distributed in reasonable proportion to the benefits received. Indirect costs, or costs incurred for common or joint objectives that cannot be readily identified with a particular final cost objective, must be allocated in accordance with one of several methods described in OMB Circular A-122 (Appendix A, Section D.). Each methodology requires the use of an equitable distribution base which best measures the relative degree of benefit. OMB Circular A-122 allows various distribution bases as follows: total direct costs, modified total direct costs, direct salaries and wages, or square feet (for building and maintenance costs). Revenue is not included in OMB Circular A-122 as an acceptable distribution base. Revenue would generally not result in an equitable distribution as it does not represent services rendered or goods provided to the grant or contract.

When recalculating the administrative cost distribution using total direct costs as the distribution base, we determined that administrative costs for the Family Planning Program were actually 5% higher. Since the increased costs would have no impact on MDCH Grant funds because the grant was already fully expended, an adjustment is not included on the attached Statement of MDCH Grant Program Revenues and Expenditures.

Recommendation

We recommend the Agency develop an allocation methodology for indirect administrative costs that is clearly documented and equitable to all programs based on the benefits derived as required by OMB Circular A-122.

Finding

4. Cost Allocation Bases Not Supported

The Agency's cost allocation bases for education and four clinics were not supported.

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 states that for costs to be allowable, costs must be adequately documented, and allocable in accordance with relative benefits received (distributed in reasonable proportion to the benefits received). Indirect costs (costs incurred for common or joint objectives and cannot be readily identified with a particular final cost objective) must be allocated in accordance with one of several methods described in OMB Circular A-122. The direct allocation method, which appears to be the methodology employed by the Agency for education and clinic costs, allows costs to be prorated to awards using a base most appropriate to the particular cost being prorated. The base must accurately measure the benefits provided to each award, must be established in accordance with reasonable criteria, and be supported by current data.

The Agency has fifteen clinics and allocates the clinical expenses based on the number of visits for each program. However, this method was not applied for four of the clinics (Burton, Flint, Owosso, and Saginaw) where an unsupported 67% allocation to the Family Planning Program was used for each of these clinics. The number of Family Planning visits at these four clinics for 2010 ranged from 55.03% to 58.02%. According to the Agency, this information was not available when the FSR was completed.

The Agency allocates 50% of its education expenses to the Family Planning Program. However, documentation to support that the 50% allocation represents the benefit provided to the Family Planning Program was not available.

While some of the allocations were unsupported, we determined the allocations were reasonable with any differences immaterial. Accordingly, no adjustments are proposed.

Recommendation

We recommend that the Agency adopt policies and procedures to ensure cost allocation bases are adequately supported in accordance with OMB Circular A-122.

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, 2010 is \$2,773,908. 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 Mid and South Michigan
Family Planning Program
Statement of MDCH Grant Program Revenues and Expenditures
10/1/09 – 9/30/10**

	BUDGETED	REPORTED	AUDITOR'S ADJ	RECLASS	ALLOWABLE
REVENUES:					
MDCH Grant	\$2,773,908	\$2,773,908 ¹	\$0	\$0	\$2,773,908
Fees 1 st & 2 nd Party	\$3,680,175	\$3,504,092	\$0	\$116,746 ²	\$3,620,838
Local Funds Other	\$212,575	\$342,050	\$167,755	(\$116,746) ²	\$393,059
TOTAL REVENUES	\$6,666,658	\$6,620,050	\$167,755	\$0	\$6,787,805
EXPENDITURES:					
Salary & Wages	\$3,023,120	\$3,039,265	\$134,130	(\$53,057) ²	\$3,120,338
Fringe Benefits	\$819,296	\$734,757	\$2,042	\$0 ²	\$736,799
Supplies & Materials	\$1,324,319	\$1,402,680	\$583	(\$10,914) ²	\$1,392,349
Travel	\$67,113	\$62,045	(\$12)	(\$9,775) ²	\$52,258
Communications	\$199,300	\$178,793	\$333	\$0 ²	\$179,126
Other Expenses	\$42,222	\$43,667	\$0	\$343,966 ²	\$387,633
Occupancy	\$799,264	\$725,667	\$30,679	(\$18,052) ²	\$738,294
Patient Care	\$392,024	\$433,176	\$0	(\$252,168) ²	\$181,008
TOTAL EXPENDITURES	\$6,666,658	\$6,620,050	\$167,755	\$0	\$6,787,805

- ¹ Actual MDCH payments provided on a performance reimbursement basis.
² Reclassification of expenses and revenue to proper category (Finding 2).

Corrective Action Plan

Finding Number: 1

Page Reference: 3

Finding: **FSR Does Not Include Audit Adjustments**

The Agency completed and submitted their final FSR prior to recording audit adjustments resulting in an understatement of \$167,755 in Family Planning Program expenditures.

Recommendation: Adopt policies and procedures to ensure the final FSR includes all year end adjustments.

Comments: The audit adjustments were not included in the Financial Status Report for 2009-2010 because the Agency's financial audit was performed and completed in late January and the Final Financial Status Report was due to MDCH no later than November 30, 2010. MDCH personnel have not proscribed a clear method for submitting an amended FSR that has no monetary impact on the grant. In addition, as pointed out, the result of the audit adjustments was an increase in expenses for the Family Planning Program, but would have no impact on the funds received by the Agency since the grant allocation had been totally exhausted.

Corrective Action: None stated.

**Anticipated
Completion Date:** NA

MDCH Response: The Final FSR is due to MDCH by December 15th; however, the Agency should submit subsequent amendments to MDCH for informational purposes and consideration regarding the need for an adjusted settlement.

Corrective Action Plan

Finding Number: 2

Page Reference: 3

Finding: Misclassification of Expenditures and Revenue

The Agency misclassified numerous expenditure and revenue items on the final FSR.

Recommendation: Adopt policies and procedures to ensure the final FSR is completed in accordance with the Financial Status Report Form Preparation Instructions. Additionally, take action to ensure all applicable costs are identified when developing future line item budgets for the Family Planning Program.

Comments: The Agency acknowledges that expenditures were misclassified; however, the assertion that the "Other Expenses" line would have far exceeded the budgeted amount of \$42,222 is a misstatement as the expenditures were presented in the Financial Statement consistent with the manner presented in the original budget. The budget instructions from MDCH provide very little guidance with regard to the makeup of the various categories of expenses.

Corrective Action: As a result of this audit, the Agency has a much better understanding of how MDCH would like to see the budget prepared and steps will be taken to insure that the Agency is in compliance with the guidelines.

Anticipated Completion Date: In process.

MDCH Response: The Agency must take action to ensure the final FSR is completed in accordance with the Financial Status Report Form Preparation Instructions.

Corrective Action Plan

Finding Number: 3

Page Reference: 4

Finding: Improper Administrative Cost Distribution Base

The Agency improperly allocated administrative costs to programs based on a percentage of program revenue in relation to total agency revenue.

Recommendation: Develop an allocation methodology for indirect administrative costs that is clearly documented and equitable to all programs based on the benefits derived as required by OMB Circular A-122.

Comments: The use of expenses as a basis for the allocation of administrative costs would not result in an equitable allocation of administrative expenses because there are many aspects of our business that result in a significant amount for revenue with very little expenses, i.e. fundraising. Using the expenses for a given department as the basis for allocating administrative costs would result in additional cost being charged to the Family Planning Program. OMB Circular A-122 states, “The essential consideration in selecting a method or a base is that it is the one best suited for assigning the pool of costs to cost objectives, in accordance with the benefits derived; a traceable cause and effect relationship; or logic and reason, were neither the cause nor the effect of the relationship is determinable.” Given the ongoing political controversy that surrounds our mission and work, it is both logical and reasonable to choose a cost allocation method that results in the most conservative statement of allowable costs.

Corrective Action: The Agency has begun complying with the method that was requested to restate the FSR during the audit and subsequently reviewed and accepted by MDCH.

Anticipated

Completion Date: In process.

MDCH Response: None.

Corrective Action Plan

Finding Number: 4

Page Reference: 5

Finding: Cost Allocation Bases Not Supported

The Agency's cost allocation bases for education and four clinics were not supported.

Recommendation: Adopt policies and procedures to ensure cost allocation bases are adequately supported in accordance with OMB Circular A-122.

Comments: The allocation of 67% that was used by the four health centers that were part of the merger with PP East Central MI (Saginaw, Burton, Flint, and Owosso) was based on the allocation method that was prepared by Flint affiliate (prior to the merger). The method was evidently based on an annual review of the Family Planning Program at that affiliate. Even though the former Flint affiliate had 4 different locations, the Family Planning Program expenses were stated in the aggregate and not tracked by health center. No better information was available prior to the due date of the FSR.

The Agency agrees that the allocation of 50% used to support Education expenses was subjective and conservative. Education expenses are allowable, and it is the Agency's contention that all of the expenses, net of any revenue, would qualify. However, as with all expenses that are applied to the grant, it is in our best interest to be conservative. The Agency would be more than happy to adopt a more objective method for charging Education expenses to the Family Planning Grant, and ask for guidance from MDCH.

Corrective Action: Systems have been created to monitor and update visit and RVU data on a monthly basis. Systems are in place to review the expenses being charged to the grant on a monthly basis, and also to review operations every quarter to insure that any changes made after the FSR is prepared are incorporated.

The appropriate methodology for charging Education Department expenses is the only outstanding issue and the Agency requests additional guidance from MDCH on an approach.

**Anticipated
Completion Date:** In process.

MDCH Response: Regarding the allocation of education expenses, the Agency must select a method that ensures the costs are distributed to benefiting programs in proportion to the benefits received. Each element of cost should be evaluated to determine benefits derived, and costs should then be allocated to benefiting programs accordingly. Reasonable criteria should be used to measure benefits. Additionally, the allocation must be supported by current data, and documentation must be retained to support the allocation. If further guidance is needed, the Agency may contact Barbara (Quess) Derman at MDCH.