Audit Report

Planned Parenthood Mid and South Michigan
Family Planning Program

October 1, 2012 - September 30, 2013

Office of Audit
Quality Assurance and Review
October 2014

RICK SNYDER
GOVERNOR

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

NICK LYON
DIRECTOR

October 6, 2014

Loreen Carpentier, Chief Executive Officer
Planned Parenthood of Mid and South Michigan
3100 Professional Drive
P.O. Box 3673
Ann Arbor, Michigan 48106

Dear Ms. Carpentier,

Enclosed is our final report from the Michigan Department of Community Health (MDCH) audit of the Planned Parenthood of Mid and South Michigan Family Planning Program for the period October 1, 2012 through September 30, 2013.

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 and findings are organized by audit objective. The Corrective Action Plans, and Comments and Recommendations include the agency's response to the Preliminary Analysis.

Thank you for the cooperation extended throughout this audit process.

Sincerely,

Debra S. Hallenbeck

Debra S. Hallenbeck, Manager
Quality Assurance and Review
Office of Audit

Enclosure

cc:

Paulette Dobynes Dunbar, Manager, Division of Family and Community Health
Jeanette Lightning, Manager, Reproductive Health Unit
Pam Myers, Director, Office of Audit
Steve Utter, Financial Analyst, Division of Family and Community Health

TABLE OF CONTENTS

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 seventeen clinics located in central and southern Michigan in the cities of Ann Arbor (two clinics), Battle Creek, Benton Harbor, Brighton, Burton, Detroit, Flint, Ferndale, Jackson, Kalamazoo, 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 numbers 93.217 and 93.994, 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 Program records and activities for the fiscal period October 1, 2012 to September 30, 2013. 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 effective in establishing and implementing internal controls over the Family Planning Program. We noted no internal control exceptions.

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 reported their Family Planning Program financial activity to MDCH in substantial compliance with applicable MDCH requirements and agreements, applicable federal standards, and generally accepted accounting principles. We noted two exceptions as follows: the CEO's salary exceeded the Federal Executive Level II limit (Finding #1), and expenditure items were misclassified (Finding #2). Additionally, we noted that the different types of educational activities that are supported by different grant funds are not separately identified in the financial records, and certain educational activities are reported twice to MDCH on separate FSRs as addressed in the Comments and Recommendations section of this report.

Finding
1. CEO Salary Exceeded the Allowable Amount

The Agency reported a salary amount for the Chief Executive Officer (CEO) that exceeded the Federal Executive Level II limit.

The Consolidated Appropriations Act, 2012 (P.L. 112-74), enacted December 23, 2011, and subsequent continuing resolutions, limit the salary amount that may be charged to the Family Planning Program for an individual. The amount charged for an individual may not exceed the Executive Level II amount, which is $179,700. This is the total base salary limit subject to allocation percentages.

The Agency's allocation percentage for the general administration cost center for which the CEO's salary is booked is 63.36%. Therefore, the total amount allowed to be charged to the Family Planning Program is $113,865 for salary for an individual in this cost center ($179,700 x 63.36%). The amount charged to the Family Planning Program was $117,223 for the CEO. The Agency exceeded the limit by $3,358. An adjustment is shown on the attached Statement of MDCH Grant Program Revenues and Expenditures. Due to the level of local funds supporting the Family Planning Program, there was no impact on MDCH funds.

Recommendation

We recommend the Agency take action to ensure reported salary amounts do not exceed the Federal Executive Level II limit.

Finding
2. Misclassification of Expenditures (Repeat)

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 expenditure items in the wrong categories. For example, printing expenditures were improperly reported in Travel; bank fees and meals were improperly reported in Supplies & Materials; and office supplies and postage were improperly reported in Other.

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

Supplies & Materials	(69,439)
Travel	(10,215)
Other	79,654

Adjustments to properly classify expenditures are shown on the attached Statement of MDCH Grant Program Revenues and Expenditures. After properly classifying expenditures, no costs were above the budget threshold on the FSR.

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.

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, 2013 is $3,602,272. 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 Program funding.

Planned Parenthood of Mid and South Michigan

Family Planning Program

Statement of MDCH Grant Program Revenues and Expenditures

10/1/12 - 9/30/13

	BUDGETED	REPORTED	AUDIT ADJUSTMENT	ALLOWABLE
REVENUES:				
MDCH Grant	$3,602,272	$3,602,272 ***1***	$0	$3,602,272
Fees and Collections	$6,018,692	$5,642,065	$0	$5,642,065
Local Funds	$1,068,982	$951,593	($3,358) **2**	$948,235
TOTAL REVENUES	$10,689,946	$10,195,930	($3,358)	$10,192,572
EXPENDITURES:				
Salary & Wages	$4,572,771	$4,397,443	($3,358) ***2***	$4,394,085
Fringe Benefits	$1,371,832	$1,247,112	$0	$1,247,112
Travel	$123,261	$118,470	$10,215 ***3***	$128,685
Supplies	$2,518,558	$2,445,176	$69,439 ***3***	$2,514,615
Other Expenses	$2,103,524	$1,987,729	($79,654) ***3***	$1,908,075
TOTAL EXPENDITURES	$10,689,946	$10,195,930	($3,358)	$10,192,572

1 *Actual MDCH payments provided on a performance reimbursement basis.*

2 *CEO salary in excess of limit (Finding #1)*

3 *Misclassified expenses (Finding #2)*

Corrective Action Plan

Finding Number: **1**

Page Reference: **3**

Finding: **<u>CEO Salary Exceeded the Allowable Amount</u>**

The Agency reported a salary amount for the Chief Executive Officer (CEO) that exceeded the Federal Executive Level II limit.

Recommendation: Take action to ensure reported salary amounts do not exceed the Federal Executive Level II limit.

Comments: The Agency was not aware of the Federal Executive Level II limit. Going forward, the Agency will be sure to incorporate the limitation into their worksheet and have worked out a process with MDCH to keep informed of the limitation on an annual basis.

Corrective Action: Adhere to the limit in the grant year 10/1/2013 – 9/30/2014, and going forward.

Anticipated Completion Date: 10/1/2013

MDCH Response: None

Corrective Action Plan

Finding Number: **2**

Page Reference: **3**

Finding: **<u>Misclassification of Expenditures (Repeat)</u>**

The Agency misclassified expenditure 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.

Comments: The misclassification was a spreadsheet error that occurred when the report was initially set up. Our policy is to comply with the FSR classification guidelines and the Agency has instituted review procedures to prevent this error from happening again.

Corrective Action: Reclassification of the expenses will be done in the 10/1/2013 – 9/30/2014 grant year.

Anticipated Completion Date: 10/1/2013

MDCH Response: None

Comments and Recommendations

1. <u>Education Expenditures Not Separately Identified by Program and Reported Twice</u>

The Agency pools education expenditures into one cost center, and does not separately identify the expenditures related to each unique program [Taking Pride in Prevention (TPIP), Teen Pregnancy Prevention Initiative (TPPI), LGBT, Family Planning Program, etc.] in their financial records. For the Family Planning Program FSR, the LGBT costs that are supported by the Arcus Grant are removed from the total education expenditures, and the remaining balance of expenditures is reported in the Family Planning Program FSR along with all applicable grant funds (including TPIP, TPPI, and Mott Grants). The expenditures and revenues related to the TPIP and TPPI Programs are ***also*** reported on the respective program FSRs to MDCH. Accordingly, expenditures and revenues related to the TPIP and TPPI Programs are being reported twice to MDCH. Since the TPIP Program and TPPI Program grant revenues are also reported on the Family Planning FSR, there is no concern about being reimbursed twice for these expenditures. However, the Agency should not be reporting the revenues and expenditures twice to MDCH. The education expenditures should be separately identified by program in the financial records, and reported separately to MDCH. Additionally, the separately identified education expenditures by program should be supported by documentation to evidence compliance with the respective grant programs.

<u>Recommendation</u>

We recommend the Agency separately identify education expenditures by program in the financial records, and report the education expenditures only once to MDCH on the respective FSRs. We also recommend the Agency retain supporting documentation to evidence that the separately identified education expenditures comply with the respective grant programs.

<u>Management Response</u>

The inclusion of both Revenue and Expenses was simply for ease of reporting. Going forward, the Agency will no longer include the activities in the Title X FSR that are reported for the TPPI and TPIP grants. This change will take place with the 10/1/2013 – 9/30/2014 reporting year.