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GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF HEALTH & HUMAN SERVICES
BUREAU OF AUDIT, REIMBURSEMENT AND QUALITY ASSURANCE
CAPITOL COMMONS CENTER • 400 SOUTH PINE • LANSING, MICHIGAN 48913

NICK LYON
DIRECTOR

May 14, 2018

Lori Carpentier, President/CEO
Planned Parenthood of Michigan
950 Victors Way
Ann Arbor, Michigan 48108

Dear Ms. Carpentier:

Attached is our final report from the Michigan Department of Health and Human Services audit of the Planned Parenthood of Michigan (PPMI) Family Planning Program for the period October 1, 2016 through September 30, 2017.

The final report contains the following: Description of Agency; Funding Methodology; Purpose and Objectives; Scope and Methodology; Conclusions, Findings, and Recommendations; Statements of Grant Program Revenues and Expenditures; and Corrective Action Plans. The Corrective Action Plans include the agency's response to the Preliminary Analysis.

Final reports are posted for public viewing on MDHHS's website at:
http://www.michigan.gov/mdhhs/0,5885,7-339-73970_43164-151236--,00.html.

Thank you for the cooperation extended throughout this audit process.

Sincerely,

A handwritten signature in black ink that reads "Shannah M. Havens".

Shannah M Havens, CPA, CISA
Audit Section Manager
Population Health and Community Services Section
Audit Division

cc: Debra Hallenbeck, Director, Audit Division
Paulette Dobynes Dunbar, Manager, Division of Maternal and Infant Health
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Audit Report

Planned Parenthood of Michigan Family Planning Program

October 1, 2016 – September 30, 2017



Bureau of Audit, Reimbursement, and Quality Assurance

Audit Division

May 2018

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DESCRIPTION OF AGENCY

Planned Parenthood of Michigan (Agency) is a private 501(c)(3) non-profit organization, affiliated and accredited with the Planned Parenthood Federation of America. In May 2016, Planned Parenthood of West and Northern Michigan merged with Planned Parenthood of Mid and South Michigan to create a statewide affiliate serving all of Michigan. The Agency provides reproductive health care services at 19 health centers from Detroit to Benton Harbor and from Kalamazoo to Marquette.

FUNDING METHODOLOGY

The Agency's services are funded from local sources, fees and collections, and grant programs administered through the Michigan Department of Health and Human Services (MDHHS), which consist of federal funds. MDHHS provides the Agency with grant funding monthly, based on Financial Status Reports (FSRs), in accordance with the terms and conditions of the grant agreement and budget.

The Family Planning Program was funded by MDHHS Grant Funds, First and Third Party Fees and Collections, and Local Funds. Grant funding from MDHHS for the Family Planning Program is federal funding under federal catalog number 93.217 and 93.994 and is subject to performance requirements. That is, reimbursement from MDHHS is based upon the understanding that a certain level of performance (measured in caseload established by MDHHS) 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 financial reporting and to determine the MDHHS share of Family Planning Program costs. The following were the specific objectives of the audit:

1. To assess the Agency's effectiveness in reporting its Family Planning Program financial activity to MDHHS in accordance with applicable MDHHS requirements and agreements, applicable federal standards, and generally accepted accounting principles.
2. To assess the Agency's effectiveness in separating the cost of Title X services and non-Title X services.
3. To determine the MDHHS share of costs for the Family Planning Program in accordance with applicable MDHHS 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, 2016 to September 30, 2017. Our review procedures included the following:

- Reviewed the most recent Single Audit report.
- Reviewed the completed Subrecipient 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 building space/lease costs for proper reporting and compliance with Federal requirements.
- Reviewed Family Planning Medical Supply inventory usage records.
- Reviewed indirect cost and other cost allocations for reasonableness, and an equitable methodology.
- Reviewed for equipment purchases over \$5,000 for the Family Planning Program.
- 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

FINANCIAL REPORTING

Objective 1: To assess the Agency's effectiveness in reporting its Family Planning Program financial activity to MDHHS in accordance with applicable MDHHS requirements and agreements, applicable federal standards, and generally accepted accounting principles.

Conclusion: The Agency generally reported its Family Planning Program financial activity to MDHHS in accordance with applicable MDHHS requirements and agreements, applicable federal standards, and generally accepted accounting principles. However, we identified the following exception: inconsistent indirect cost allocation method (Finding 1).

Finding

1. Inconsistent Indirect Cost Allocation Method

The Agency did not use a consistent method to calculate its Family Planning Program's indirect costs.

Title 2 CFR 200.414 (f) states, "In addition to the procedures outlined in the appendices in paragraph (e) of this section, any non-Federal entity that has never received a negotiated indirect cost rate, except for those non-Federal entities described in Appendix VII to part 200 – States and Local Government and Indian Tribe Indirect Cost Proposals, paragraph (d)(1)(B) may elect to charge a de minimis rate of 10% of modified total direct costs (MTDC) which may be used indefinitely. As described in 200.403 Factors affecting allowability of costs, costs must be consistently charged as either indirect or direct costs but may not be double charged or inconsistently charged as both."

During our review, we noted that the Agency used a combination of the direct allocation and 10% de minimis methods to calculate and report its indirect costs. After correction of the noted exception, we determined that the Agency understated indirect costs to the Family Planning Program. No adjustment will be made since additional costs have no impact on MDHHS's obligation for the Family Planning Program.

Recommendation

We recommend that the Agency select one allocation method to calculate and report indirect costs to ensure compliance with Federal regulations.

Separation of Title X and Non-Title X Expenses

Objective 2: To assess the Agency's effectiveness in separating the cost of Title X and non-Title X services.

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

MDHHS SHARE OF COST AND BALANCE DUE

Objective 3: To determine the MDHHS share of cost for the Family Planning Program in accordance with applicable MDHHS requirements and agreements, and any balance due to or due from the Agency.

Conclusion: The MDHHS obligation under the Family Planning Program for fiscal year ended September 30, 2017 is \$3,726,269 for the Family Planning Services and \$784,872 for the Family Planning Detroit Section. The attached Statements of MDHHS Grant Program Revenues and Expenditures show the budgeted, reported, and allowable costs. The audit made no adjustments affecting Family Planning Program grant funding.

**Planned Parenthood of Michigan
Family Planning Services
Statement of Grant Program Revenues and Expenditures
10/1/16 - 9/30/17**

	BUDGETED	REPORTED	AUDIT ADJUSTMENT	ALLOWABLE
REVENUES:				
MDHHS Grant	\$3,726,269	\$3,726,269 ¹		\$3,726,269
Fees & Collections	\$5,597,528	\$5,657,219		\$5,657,219
Local Funds - Other	\$1,469,421	\$875,192		\$875,192
TOTAL REVENUES	\$10,793,218	\$10,258,680	\$0	\$10,258,680
EXPENDITURES:				
Salary & Wages	\$4,349,621	\$4,303,140		\$4,303,140
Fringe Benefits	\$913,420	\$822,984		\$822,984
Travel	\$72,940	\$70,536		\$70,536
Supplies & Materials	\$2,010,955	\$1,886,076		\$1,886,076
Other Expenses	\$2,555,392	\$2,296,740		\$2,296,740
Indirect Costs	\$890,890	\$879,204		\$879,204
TOTAL EXPENDITURES	\$10,793,218	\$10,258,680	\$0	\$10,258,680

¹ Actual MDHHS payments.

**Planned Parenthood of Michigan
Family Planning Detroit
Statement of Grant Program Revenues and Expenditures
10/1/16 - 9/30/17**

	BUDGETED	REPORTED	AUDIT ADJUSTMENT	ALLOWABLE
REVENUES:				
MDHHS Grant	\$784,872	\$784,872 ¹		\$784,872
Fees & Collections	\$534,870	\$683,125		\$683,125
Local Funds - Other	\$172,543	\$177,699		\$177,699
TOTAL REVENUES	\$1,492,285	\$1,645,696	\$0	\$1,645,696
EXPENDITURES:				
Salary & Wages	\$563,881	\$643,320		\$643,320
Fringe Benefits	\$118,415	\$130,312		\$130,312
Travel	\$6,012	\$6,383		\$6,383
Supplies & Materials	\$249,311	\$270,893		\$270,893
Contractual	\$0	\$0		\$0
Equipment	\$0	\$0		\$0
Other Expenses	\$427,925	\$464,866		\$464,866
Indirect Costs	\$126,741	\$129,922		\$129,922
TOTAL EXPENDITURES	\$1,492,285	\$1,645,696	\$0	\$1,645,696

¹ Actual MDHHS payments.

Corrective Action Plan

Finding Number: 1

Page Reference: 3

Finding: **Inconsistent Indirect Cost Allocation Method**

The Agency did not use a consistent method to calculate its Family Planning Program's indirect costs.

Recommendation: Select one allocation method to calculate and report indirect costs to ensure compliance with Federal regulations.

Comments: None

Corrective Action: Goring forward, PPMI has decided to use the direct allocation method for all indirect costs. This action has been implemented for the FY2018 grant.

**Person Responsible
for Implementation:** Denise Thal

**Anticipated
Completion Date:** October 2018

MDHHS Response: None

Comments and Recommendations

1. Not Charging Family Planning Clients According to the Sliding Fee Scale

The Agency did not appropriately charge clients according to the sliding fee scale as required by Title X.

Title 42 CFR 59.5 (a)(7) states that each project must, “Provide that no charge will be made for services provided to any persons from a low-income family except to the extent that payment will be made by a third party (including a government agency) which is authorized to or is under legal obligation to pay this charge.”

Also, the Michigan Title X Family Planning Program Standards & Guidelines Manual, Part II, Section C.8., Subsection 8.4.6 states, “Where there is legal obligation or authorization for third party reimbursement, including public or private sources, all reasonable efforts **must** be made to obtain third party payment without the application of any discounts (42 CFR 59.5(a)(9)). The client’s family income **must** be taken into account before determining whether copayments or additional fees are charged. With regard to insured clients, clients whose family income is at or below 250% FPL **must not** pay more (in copayments or additional fees) than what they would otherwise pay when the schedule of discounts is applied.”

During our review, we noted that two (8%) of 25 clients paid more in copayments and additional fees than what they should have paid if the schedule of discounts was applied.

We recommend that the Agency provide training to employees on charging clients appropriately according to the sliding fee scale and implement monitoring procedures to ensure compliance with Federal regulation.

Management’s Response:

PPMI fully understands the need to appropriately assess a patient’s income and charge them on the sliding fee scale per the Title X guidelines. Title X regulations also dictate that the program is a “payer of last resort”, which we have understood means that we have the responsibility to collect fees from the patients themselves as well as any other payers that may be applicable (i.e. insurance providers, including Medicaid). PPMI maintains contracts with more than 25 health insurance providers. Virtually all these contracts stipulate that, to comply, we must collect copayments from patients when they are applicable. In some of the contracts, collecting copayments can be waived in rare cases where the patient has a specific financial hardship. The fact of being categorically “low income” by virtue of the Federal Poverty guidelines is insufficient grounds to waive a copayment. To date, there has been no provision in these contracts to waive that rule for Title X patients. PPMI is committed to seeking clarification from our individual insurance companies and requesting amendments to our contracts to solve this issue. We anticipate that this will be a very lengthy process. In the meantime, we are also asking for guidance from MDHHS about what to do in the interim.

2. Fee Schedule Not Developed Based on Cost Analysis

The Agency did not design its fee schedule based on the cost analysis completed for Family Planning Program Services. Also, the Agency did not develop a board approved policy identifying the percentage of costs the fee schedule should recover.

The Michigan Title X Family Planning Program Standards & Guidelines Manual, Part II, Section C.8., Subsection 8.4.4, states, “Sub-recipients **must** document their process for determining how the schedule of fees is designed to recover the reasonable cost of providing services.” Also, it states, “While not recommended to do so, sub-recipients may elect to set their fee schedule below what would recover the actual cost of providing services, based on their specific community needs and circumstances. To elect this option, the sub-recipient **must** have a policy in place that identifies the percentage of costs the fee schedule is designed to recover and the policy **must** be approved by the sub-recipient’s administrative board.”

The Agency completed a detailed cost analysis in 2016 and elected to set its fee schedule below the amount that would recover the reasonable cost of providing services. However, the Agency did not develop an administrative board approved policy identifying the percentage of costs the fee schedule was intended to recover.

We recommend that the Agency design its fee schedule based on the cost analysis for Family Planning Program Services. We also recommend that the Agency ensure that its fee schedule is designed to recover the reasonable cost of providing services, or a percentage of costs as approved by the administrative board to ensure compliance with Michigan Title X guidelines.

Management Response:

PPMI has implemented this recommendation. The 2018 fee schedule is designed to recover costs except where to do so would create financial barriers to access for our patients. In such situations, we make the conscious choice to allow private funding to make up the difference. The policy and fee schedule will routinely be approved by the PPMI Board of Directors with community needs and circumstances in mind.