

# Audit Report

Planned Parenthood of West and Northern Michigan

Family Planning Program

October 1, 2013 – September 30, 2014



Office of Audit  
Quality Assurance and Review  
April 2015



RICK SNYDER  
GOVERNOR

STATE OF MICHIGAN  
DEPARTMENT OF HEALTH AND HUMAN SERVICES  
LANSING

NICK LYON  
DIRECTOR

April 21, 2015

Katherine Humphrey, President/CEO  
Planned Parenthood West and Northern Michigan  
425 Cherry St. SE  
Grand Rapids, Michigan 49503

Dear Ms. Humphrey:

Enclosed is our final report from the Michigan Department of Health and Human Services audit of the Planned Parenthood West and Northern Michigan Family Planning Program for the period October 1, 2013 through September 30, 2014.

The final report contains the following: description of agency; funding methodology; purpose; objectives; scope and methodology; conclusions, findings and recommendations; Statement of 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, 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, Manager  
Quality Assurance and Review  
Office of Audit

Enclosure

cc: Paulette Dobynes Dunbar, Manager, Division of Family and Community Health  
Deanna Charest, Acting Manager, Reproductive and Preconception Health Unit  
Pam Myers, Director, Office of Audit  
Keith Rubley, Auditor, Office of Audit  
Steve Utter, Financial Analyst, Division of Family and Community Health

# Audit Report

Planned Parenthood of West and Northern Michigan

Family Planning Program

October 1, 2013 – September 30, 2014



Office of Audit  
Quality Assurance and Review  
April 2015

## TABLE OF CONTENTS

	Page
Description of Agency .....	1
Funding Methodology.....	1
Purpose and Objectives.....	1
Scope and Methodology .....	2

### Conclusions, Findings, and Recommendations

<u>Internal Controls</u> .....	2
1. Clients Improperly Charged for Services (Repeat).....	2
2. Incomplete Billing and Collection Policy.....	3
<u>Financial Reporting</u> .....	4
3. Unapproved Salary and Wage Distribution Methodology (Repeat).....	4
4. Administrative Overhead Allocated Based on Budgeted Information (Repeat) .....	5
5. Indirect Costs Reported Without an Approved Indirect Cost Rate.....	6
6. Fees and Collections Not Reported on a Cash Basis .....	6
<u>Separation of Title X and Non-Title X Expenses</u> .....	7
<u>MDCH Share of Costs and Balance Due</u> .....	7
Statement of Grant Program Revenues and Expenditures .....	8
Corrective Action Plans .....	9

### Comments and Recommendations

1. Fee Schedule Not Designed to Recover Cost and No Agency Policy as Required.....	15
2. Expired Lease Agreement (Repeat) .....	15

## **DESCRIPTION OF AGENCY**

The Planned Parenthood of West and Northern 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 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 were funded from local sources, fees and collections, and a grant program administered through the Michigan Department of Community Health (MDCH). MDCH provided 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 was subject to performance requirements. That is, reimbursement from MDCH was based upon the understanding that a certain level of performance (measured in caseload established by MDCH) had to 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, 2013 to September 30, 2014. 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 questionnaires.
- 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 costs for reasonableness, allowability, and an equitable methodology.
- Reviewed building space/lease costs for proper reporting and compliance with Federal requirements.
- 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 an exception with clients being improperly charged (Finding 1) and an incomplete Billing & Collection Policy (Finding 2). We also noted internal control weaknesses in the financial reporting area that are addressed in the Financial Reporting Section (Findings 3-6).

#### Finding

##### 1. Clients Improperly Charged for Services (Repeat)

The Agency charged clients more than the allowed amount according to Title X program requirements.

Of the 18 client visits reviewed for the proper application of the sliding fee scale and proper charges, we identified 2 clients that were eligible for a 100% discount that were erroneously charged. One paid a \$20 insurance co-payment, and the other paid an \$8.63 balance from a pregnancy test after the application of the insurance proceeds.

The Office of Population Affairs Program Requirements for Title X Funded Family Planning Projects, Section 8.4.6. states:

*Family income should be assessed before determining whether copayments or additional fees are charged. With regard to insured clients, clients whose family income is at or below 250% FPL should not pay more (in copayment or additional fees) than what they would otherwise pay when the schedule of discounts is applied.*

During our FYE 2011 audit, we also cited an issue with improper charges and recommended 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's response indicated that this would be an agenda item of the Medical Services Team staff meetings, and this would be an audit item for compliance within your Quality and Risk Management Program.

### **Recommendation**

We again recommend that the Agency adopt policies and procedures to ensure that no clients are charged more than what they would otherwise pay when discounts are applied.

### **Finding**

#### **2. Incomplete Billing and Collection Policy**

The Agency's Billing and Collection Policy did not include some key elements that are required by the Michigan Title X Family Planning Program Standards & Guidelines Manual.

The Michigan Title X Family Planning Program Standards & Guidelines Manual (March 2013 version applicable to the audit period) requires that the Agency implement policies and procedures for charging, billing and collecting fees for the services provided by the project, and they must include the following provisions:

1. Clients who are responsible for paying any fee for their services must be given bills directly at the time of the services that show total charges less any allowable discounts (Section 6.3.1 H. and J.).
2. In cases where a third party is responsible, bills showing total charges without applying any discount must be submitted to that party (Section 6.3.1 I.).
3. Reasonable efforts to collect charges without jeopardizing client confidentiality must be made (Section 6.3.1 L.).

Our review revealed that third party billings do in fact show total charges without applying any discount, and a Spring 2014 review by the MDCH Title X Program staff indicated clients are provided bills at the time of services that show total charges less any allowable discounts. Accordingly, while the Agency's Billing and Collection Policy did not specifically address items 1 and 2 above, it appears they are occurring in practice.

As noted above, the Agency's Billing and Collection Policy does not address the requirement for reasonable collection efforts without jeopardizing client confidentiality. The Billing and Collection Policy indicates that patient statements are mailed to patients, with no indicated measures to ensure client confidentiality. It appears there may be measures in place to ensure client confidentiality as the clients' Data Information and Funding Applications provide for contact preferences. However, this data collection practice and how it is used to ensure confidentiality are not detailed in the Billing and Collection Policy.

### **Recommendation**

We recommend that the Agency update the Billing and Collection Policy to comply with the current Michigan Title X Family Planning Program Standards & Guidelines Manual (November 2014 version).

## **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 salary and wage reporting (Finding 3), administrative overhead allocations (Findings 4 & 5), and fee and collection reporting (Finding 6).

### **Finding**

#### **3. Unapproved Salary and Wage Distribution Methodology (Repeat)**

The Agency distributes salaries and wages based upon unduplicated client visits rather than the actual activity of each employee that is supported by personnel activity reports, and this method has not been approved 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 wages are allocated based on client visits.

Federal OMB Circular A-122 requires that the distribution of salaries and wages to awards must be supported by personnel activity reports and that such reports must reflect an after-the-fact determination of the actual activity of each employee and must be prepared at least monthly and must coincide with one or more pay periods.



During our FYE 2011 audit, we also cited this issue. Management's response indicated that the Vice-President of Finance and Vice-President of Medical Services would 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. The anticipated completion date was FYE 2013.

### **Recommendation**

We again recommend that the Agency adopt policies and procedures for the distribution of payroll costs to comply with Federal cost principles. We advise the Agency to consider the grant reforms contained at 2 CFR Part 200.430(i) related to the Standards for Documentation of Personnel Expenses that will be effective with awards issued for FYE 2016 in developing procedures. In the meantime and for the current FYE 2015 award, we recommend the Agency seek approval from MDCH for the current methodology of distributing payroll costs.

### **Finding**

#### **4. Administrative Overhead Allocated Based on Budgeted Information (Repeat)**

The Agency improperly used budget information to allocate administrative overhead expenses to the Family Planning Program.

The Agency allocates administrative overhead expenses (administration, business operations, technology, finance, and facilities) to the Resource Development Administration, Medical Services Administration, and Education Administration based on the budgets of these Administrations. The administrative overhead expenses allocated to the Medical Services Administration are then allocated to the individual clinics based on the budgets of the individual clinics, and split between Title X and non-Title X based on actual client visits. None of the administrative overhead expenses allocated to the Resource Development Administration or Education Administration are charged to the Family Planning Program.

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. 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.

During our FYE 2011 audit, we also cited an issue with improperly using budgeted client visits as the distribution base and recommended that the cost pool be distributed based on actual results rather than budgeted plans. Management's response indicated that staff would be reviewing the Federal cost principles to create an administrative overhead and cost allocation plan that are in compliance.

## **Recommendation**

We again recommend that the Agency adopt policies and procedures to ensure that the administrative overhead cost pool is distributed based on actual results rather than budgeted plans.

## **Finding**

### **5. Indirect Costs Reported Without an Approved Indirect Cost Rate**

The Agency reported indirect costs (administrative overhead) on the Financial Status Report (FSR) (under "Other Expense" as the MDCH budget allowed) without an approved indirect cost rate as required by MDCH instructions and Federal cost principles.

The Agency allocates administrative overhead expenses to all benefitting programs based upon an indirect cost allocation method whereby costs are allocated to benefitting programs based on budgeted costs and client visits (See also Finding 4. above). The indirect costs related to the Family Planning Program are reported to MDCH on the FSR as "Other Expense." However, an indirect cost rate has not been developed and approved as required by MDCH instructions and Federal cost principles.

OMB Circular A-122, Appendix A, Section D requires that administration expenses be allocated using one of several allowed methods resulting in an indirect cost rate that requires negotiation and approval. Furthermore, MDCH budget and e-Grants instructions require that indirect costs can only be applied if an approved indirect cost rate has been established and an actual rate has been approved by a State of Michigan department or the applicable federal cognizant agency and is accepted by the Department.

## **Recommendation**

We recommend that the Agency seek approval from MDCH for the administrative overhead allocation and reporting methodology to be used in FYE 2015 in the absence of an approved indirect cost rate. We also recommend the Agency take action to ensure compliance with the grant reforms contained at 2 CFR Part 200.331(a)(4) related to indirect costs that will be effective with any new awards after December 26, 2014.

## **Finding**

### **6. Fees and Collections Not Reported on a Cash Basis**

The Agency reported fees and collections on the Financial Status Report (FSR) based on an accrual method rather than the required cash basis.

The Agency records the amount billed less applicable credits as the revenue for the Family Planning Program. The Financial Status Report Form Preparation Instructions state:

*The Financial Status Report is to be prepared reporting expenditures on a cash or accrual basis and revenue on an accrual basis, with the exception of fees which should be reported on a cash basis as received.*

The difference between the amount reported on the accrual method and the actual cash received cannot be readily determined. However, the difference would likely have no impact on MDCH grant funding due to the level of "Local Funds" reported. Accordingly, no adjustment is being made in this report.

### **Recommendation**

We recommend that the Agency adopt policies and procedures to ensure compliance with the applicable FSR instructions, and report revenue accordingly.

## **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, 2014, is \$836,066. The attached Statement of 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  
Statement of Grant Program Revenues and Expenditures  
10/1/13 - 9/30/14

	BUDGETED	REPORTED	AUDIT ADJUSTMENT	ALLOWABLE
<b>REVENUES:</b>				
MDCH Grant	\$836,066	\$836,066 <sup>1</sup>		\$836,066
Fees & Collections - 1st & 2nd Party	\$1,873,502	\$1,300,319		\$1,300,319
Local Funds - Other	\$583,978	\$665,271		\$665,271
<b>TOTAL REVENUES</b>	<b>\$3,293,546</b>	<b>\$2,801,656</b>	<b>\$0</b>	<b>\$2,801,656</b>
<b>EXPENDITURES:</b>				
Salary & Wages	\$1,511,209	\$1,245,407		\$1,245,407
Fringe Benefits	\$264,462	\$184,629		\$184,629
Supplies & Materials	\$520,076	\$414,707		\$414,707
Travel	\$25,793	\$21,821		\$21,821
Other	\$972,006	\$935,092		\$935,092
<b>TOTAL EXPENDITURES</b>	<b>\$3,293,546</b>	<b>\$2,801,656</b>	<b>\$0</b>	<b>\$2,801,656</b>
<sup>1</sup> Actual MDCH payments.				

## Corrective Action Plan

**Finding Number:** 1

**Page Reference:** 2

**Finding:** Clients Improperly Charged for Services (Repeat)

The Agency charged clients more than the allowed amount according to Title X program requirements.

**Recommendation:** Adopt policies and procedures to ensure that no clients are charged more than what they would otherwise pay when discounts are applied.

**Comments:** After the two issues involving the sliding fee scale were brought to Management's attention it was determined the clients with the incorrect payment amounts both occurred due to staff switching the patient's visit type and pay source during the visit. The EMR software was not sliding fees correctly if a patient's demographic information was entered in a particular order. While this finding (along with the citing from 2011) resulted in patient's being over charged the circumstances are different. Regardless, ultimately the expectation is to properly charge patients 100% of the time.

**Corrective Action:** In January 2015 Medical Services staff was trained on how to verify fees had been discounted properly by the software and to be aware of how changing a pay source during the course of an open visit could potentially cause an issue with payment calculations. The Billing Department has completed a review of all patients' accounts that could have had changes that were not accurate.

**Anticipated  
Completion Date:** Completed

**MDCH Response:** None

## Corrective Action Plan

**Finding Number:** 2

**Page Reference:** 3

**Finding:** Incomplete Billing and Collection Policy

The Agency's Billing and Collection Policy did not include some key elements that are required by the Michigan Title X Family Planning Program Standards & Guidelines Manual.

**Recommendation:** Update the Billing and Collection Policy to comply with the current Michigan Title X Family Planning Program Standards & Guidelines Manual (November 2014 version).

**Comments:** None

**Corrective Action:** The Agency will update and comply with the Billing and Collection Policy standards as described in the current Michigan Title X Family Planning Program Standards and Guidelines Manual.

**Anticipated  
Completion Date:** July 2015

**MDCH Response:** None

## Corrective Action Plan

**Finding Number:** 3

**Page Reference:** 4

**Finding:** Unapproved Salary and Wage Distribution Methodology (Repeat)

The Agency distributes salaries and wages based upon unduplicated client visits rather than the actual activity of each employee that is supported by personnel activity reports, and this method has not been approved as required.

**Recommendation:** Adopt policies and procedures for the distribution of payroll costs to comply with Federal cost principles. Consider the grant reforms contained at 2 CFR Part 200.430(i) related to the Standards for Documentation of Personnel Expenses that will be effective with awards issued for FYE 2016 in developing procedures. In the meantime and for the current FYE 2015 award, seek approval from MDCH for the current methodology of distributing payroll costs.

**Comments:** During FYE 2014 the Agency revised its classification process for patients in the EMR software that lead to an adjusted distribution methodology for salary and wages.

**Corrective Action:** Management has contacted MDCH to begin the process of establishing an approved allocation methodology. Management will review the grant reforms contained at 2 CFR Part 200.430(i) related to Standards of Documentation of Personnel Expenses.

**Anticipated  
Completion Date:** June 2015

**MDCH Response:** None

## Corrective Action Plan

**Finding Number:** 4

**Page Reference:** 5

**Finding:** Administrative Overhead Allocated Based on Budgeted Information (Repeat)

The Agency improperly used budget information to allocate administrative overhead expenses to the Family Planning Program.

**Recommendation:** Adopt policies and procedures to ensure that the administrative overhead cost pool is distributed based on actual results rather than budgeted plans.

**Comments:** Prior to FYE 2014, the Agency did not spread administrative charges to all programs. In FYE 2014 the Agency revised its administrative overhead plan to spread actual costs by a percentage that was established at the beginning of the year based on budgeted amounts. This change was necessary to spread costs to multiple departments.

**Corrective Action:** The Agency will allocate administrative overhead based on actual totals rather than budgeted amounts.

**Anticipated  
Completion Date:** May 2015

**MDCH Response:** None



## Corrective Action Plan

**Finding Number:** 5

**Page Reference:** 6

**Finding:** Indirect Costs Reported Without an Approved Indirect Cost Rate

The Agency reported indirect costs (administrative overhead) on the Financial Status Report (FSR) (under "Other Expense" as the MDCH budget allowed) without an approved indirect cost rate as required by MDCH instructions and Federal cost principles.

**Recommendation:** Seek approval from MDCH for the administrative overhead allocation and reporting methodology to be used in FYE 2015 in the absence of an approved indirect cost rate. We also recommend the Agency take action to ensure compliance with the grant reforms contained at 2 CFR Part 200.331(a)(4) related to indirect costs that will be effective with any new awards after December 26, 2014.

**Comments:** On February 11, 2015, the Agency received notification of an approved Federal Indirect Cost Rate of 15.10%.

**Corrective Action:** The Agency has been in communication with MDCH and is in the process of amending its budgets to incorporate this information.

**Anticipated  
Completion Date:** April 2015

**MDCH Response:** None

## Corrective Action Plan

**Finding Number:** 6

**Page Reference:** 6

**Finding:** Fees and Collections Not Reported on a Cash Basis

The Agency reported fees and collections on the Financial Status Report (FSR) based on an accrual method rather than the required cash basis.

**Recommendation:** Adopt policies and procedures to ensure compliance with the applicable FSR instructions, and report revenue accordingly.

**Comments:** Since FYE 2012 the Agency Finance Staff has worked diligently to comply with GAAP and FASB 954 rules in relation to revenue; especially for Medical Services. Reporting fees and collections on a cash basis is very different from the procedures that have been adopted to reflect accurate financial reporting to the Board of Directors and Budget & Finance Committee.

**Corrective Action:** The Agency Controller will determine the best way to move forward with reporting revenue on the FSR that is different/does not match the general ledger.

**Anticipated  
Completion Date:** September 2015

**MDCH Response:** None

## **Comments and Recommendations**

### **1. Fee Schedule Not Designed to Recover Cost and No Agency Policy as Required**

The Agency completed a detailed cost analysis in the first quarter of 2014 to determine the cost of providing each service. However, fees were set at approximately 50% of the amounts determined by the cost analysis. The Agency did not have an administration approved policy in place which designates the percentage of the cost the fee schedule is to represent.

The Code of Federal Regulations, 42 CFR 59.5(a)(8) requires that charges will be made in accordance with a schedule of fees designed to recover the reasonable cost of providing services. MDCH, through the Michigan Title X Family Planning Program Standards & Guidelines Manual, allows agencies to set fees lower than what is required to recover actual costs, based on community needs and circumstances. However, to do so, the Agency must have an administration approved policy in place which designates the percentage of the cost the fee schedule is to represent according to Section 6.3.1 B (Section 8.4.4 A of the November 2014 Manual).

#### **Recommendation**

We recommend the Agency adopt a policy which designates the percentage of the cost the fee schedule is to represent according to the Michigan Title X Family Planning Program Standards & Guidelines Manual (Section 8.4.4 A of the November 2014 Manual).

#### **Agency Response**

PPWNM will take the actions recommended.

### **2. Expired Lease Agreement (Repeat)**

The Agency leases nine properties for the provision of services. Of the nine leased properties, one lease agreement with the Ionia County Health Department expired on September 30, 2007 and a new agreement had not been negotiated as of September 30, 2014. When leasing property from outside parties, sound business practices dictate the use of signed agreements to protect the interests of the Agency. This issue was also cited during our FYE 2011 audit and the Agency stated that they were aware of the issue, that they continued to operate in compliance with the terms of the lease, and that they would strive to continue to meet community needs while working with Ionia County regarding leased space. At the time of the audit fieldwork, we were informed that the Agency intended to move out of this leased space by the end of 2014.

### **Recommendation**

We recommend the Agency adopt policies and procedures to ensure any leased space is supported by a current lease agreement so the terms and conditions are clearly identified in a legally binding agreement.

### **Agency Response**

Leases are all up to date.

## TABLE OF CONTENTS

	Page
Description of Agency .....	1
Funding Methodology.....	1
Purpose and Objectives .....	1
Scope and Methodology .....	2

### Conclusions, Findings, and Recommendations

<u>Internal Controls</u> .....	2
1. Clients Improperly Charged for Services (Repeat).....	2
2. Incomplete Billing and Collection Policy .....	3
<u>Financial Reporting</u> .....	4
3. Unapproved Salary and Wage Distribution Methodology (Repeat).....	4
4. Administrative Overhead Allocated Based on Budgeted Information (Repeat) .....	5
5. Indirect Costs Reported Without an Approved Indirect Cost Rate.....	6
6. Fees and Collections Not Reported on a Cash Basis .....	6
<u>Separation of Title X and Non-Title X Expenses</u> .....	7
<u>MDCH Share of Costs and Balance Due</u> .....	7
Statement of Grant Program Revenues and Expenditures .....	8
Corrective Action Plans .....	9

### Comments and Recommendations

1. Fee Schedule Not Designed to Recover Cost and No Agency Policy as Required.....	15
2. Expired Lease Agreement (Repeat) .....	15

## **DESCRIPTION OF AGENCY**

The Planned Parenthood of West and Northern 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 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 were funded from local sources, fees and collections, and a grant program administered through the Michigan Department of Community Health (MDCH). MDCH provided 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 was subject to performance requirements. That is, reimbursement from MDCH was based upon the understanding that a certain level of performance (measured in caseload established by MDCH) had to 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, 2013 to September 30, 2014. 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 questionnaires.
- 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 costs for reasonableness, allowability, and an equitable methodology.
- Reviewed building space/lease costs for proper reporting and compliance with Federal requirements.
- 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 an exception with clients being improperly charged (Finding 1) and an incomplete Billing & Collection Policy (Finding 2). We also noted internal control weaknesses in the financial reporting area that are addressed in the Financial Reporting Section (Findings 3-6).

#### **Finding**

##### **1. Clients Improperly Charged for Services (Repeat)**

The Agency charged clients more than the allowed amount according to Title X program requirements.

Of the 18 client visits reviewed for the proper application of the sliding fee scale and proper charges, we identified 2 clients that were eligible for a 100% discount that were erroneously charged. One paid a \$20 insurance co-payment, and the other paid an \$8.63 balance from a pregnancy test after the application of the insurance proceeds.

The Office of Population Affairs Program Requirements for Title X Funded Family Planning Projects, Section 8.4.6. states:

*Family income should be assessed before determining whether copayments or additional fees are charged. With regard to insured clients, clients whose family income is at or below 250% FPL should not pay more (in copayment or additional fees) than what they would otherwise pay when the schedule of discounts is applied.*

During our FYE 2011 audit, we also cited an issue with improper charges and recommended 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's response indicated that this would be an agenda item of the Medical Services Team staff meetings, and this would be an audit item for compliance within your Quality and Risk Management Program.

### **Recommendation**

We again recommend that the Agency adopt policies and procedures to ensure that no clients are charged more than what they would otherwise pay when discounts are applied.

### **Finding**

#### **2. Incomplete Billing and Collection Policy**

The Agency's Billing and Collection Policy did not include some key elements that are required by the Michigan Title X Family Planning Program Standards & Guidelines Manual.

The Michigan Title X Family Planning Program Standards & Guidelines Manual (March 2013 version applicable to the audit period) requires that the Agency implement policies and procedures for charging, billing and collecting fees for the services provided by the project, and they must include the following provisions:

1. Clients who are responsible for paying any fee for their services must be given bills directly at the time of the services that show total charges less any allowable discounts (Section 6.3.1 H. and J.).
2. In cases where a third party is responsible, bills showing total charges without applying any discount must be submitted to that party (Section 6.3.1 I.).
3. Reasonable efforts to collect charges without jeopardizing client confidentiality must be made (Section 6.3.1 L.).

Our review revealed that third party billings do in fact show total charges without applying any discount, and a Spring 2014 review by the MDCH Title X Program staff indicated clients are provided bills at the time of services that show total charges less any allowable discounts. Accordingly, while the Agency's Billing and Collection Policy did not specifically address items 1 and 2 above, it appears they are occurring in practice.



As noted above, the Agency's Billing and Collection Policy does not address the requirement for reasonable collection efforts without jeopardizing client confidentiality. The Billing and Collection Policy indicates that patient statements are mailed to patients, with no indicated measures to ensure client confidentiality. It appears there may be measures in place to ensure client confidentiality as the clients' Data Information and Funding Applications provide for contact preferences. However, this data collection practice and how it is used to ensure confidentiality are not detailed in the Billing and Collection Policy.

### **Recommendation**

We recommend that the Agency update the Billing and Collection Policy to comply with the current Michigan Title X Family Planning Program Standards & Guidelines Manual (November 2014 version).

## **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 salary and wage reporting (Finding 3), administrative overhead allocations (Findings 4 & 5), and fee and collection reporting (Finding 6).

### **Finding**

#### **3. Unapproved Salary and Wage Distribution Methodology (Repeat)**

The Agency distributes salaries and wages based upon unduplicated client visits rather than the actual activity of each employee that is supported by personnel activity reports, and this method has not been approved 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 wages are allocated based on client visits.

Federal OMB Circular A-122 requires that the distribution of salaries and wages to awards must be supported by personnel activity reports and that such reports must reflect an after-the-fact determination of the actual activity of each employee and must be prepared at least monthly and must coincide with one or more pay periods.

During our FYE 2011 audit, we also cited this issue. Management's response indicated that the Vice-President of Finance and Vice-President of Medical Services would 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. The anticipated completion date was FYE 2013.

### **Recommendation**

We again recommend that the Agency adopt policies and procedures for the distribution of payroll costs to comply with Federal cost principles. We advise the Agency to consider the grant reforms contained at 2 CFR Part 200.430(i) related to the Standards for Documentation of Personnel Expenses that will be effective with awards issued for FYE 2016 in developing procedures. In the meantime and for the current FYE 2015 award, we recommend the Agency seek approval from MDCH for the current methodology of distributing payroll costs.

### **Finding**

#### **4. Administrative Overhead Allocated Based on Budgeted Information (Repeat)**

The Agency improperly used budget information to allocate administrative overhead expenses to the Family Planning Program.

The Agency allocates administrative overhead expenses (administration, business operations, technology, finance, and facilities) to the Resource Development Administration, Medical Services Administration, and Education Administration based on the budgets of these Administrations. The administrative overhead expenses allocated to the Medical Services Administration are then allocated to the individual clinics based on the budgets of the individual clinics, and split between Title X and non-Title X based on actual client visits. None of the administrative overhead expenses allocated to the Resource Development Administration or Education Administration are charged to the Family Planning Program.

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. 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.

During our FYE 2011 audit, we also cited an issue with improperly using budgeted client visits as the distribution base and recommended that the cost pool be distributed based on actual results rather than budgeted plans. Management's response indicated that staff would be reviewing the Federal cost principles to create an administrative overhead and cost allocation plan that are in compliance.

## **Recommendation**

We again recommend that the Agency adopt policies and procedures to ensure that the administrative overhead cost pool is distributed based on actual results rather than budgeted plans.

## **Finding**

### **5. Indirect Costs Reported Without an Approved Indirect Cost Rate**

The Agency reported indirect costs (administrative overhead) on the Financial Status Report (FSR) (under “Other Expense” as the MDCH budget allowed) without an approved indirect cost rate as required by MDCH instructions and Federal cost principles.

The Agency allocates administrative overhead expenses to all benefitting programs based upon an indirect cost allocation method whereby costs are allocated to benefitting programs based on budgeted costs and client visits (See also Finding 4. above). The indirect costs related to the Family Planning Program are reported to MDCH on the FSR as “Other Expense.” However, an indirect cost rate has not been developed and approved as required by MDCH instructions and Federal cost principles.

OMB Circular A-122, Appendix A, Section D requires that administration expenses be allocated using one of several allowed methods resulting in an indirect cost rate that requires negotiation and approval. Furthermore, MDCH budget and e-Grants instructions require that indirect costs can only be applied if an approved indirect cost rate has been established and an actual rate has been approved by a State of Michigan department or the applicable federal cognizant agency and is accepted by the Department.

## **Recommendation**

We recommend that the Agency seek approval from MDCH for the administrative overhead allocation and reporting methodology to be used in FYE 2015 in the absence of an approved indirect cost rate. We also recommend the Agency take action to ensure compliance with the grant reforms contained at 2 CFR Part 200.331(a)(4) related to indirect costs that will be effective with any new awards after December 26, 2014.

## **Finding**

### **6. Fees and Collections Not Reported on a Cash Basis**

The Agency reported fees and collections on the Financial Status Report (FSR) based on an accrual method rather than the required cash basis.

The Agency records the amount billed less applicable credits as the revenue for the Family Planning Program. The Financial Status Report Form Preparation Instructions state:

*The Financial Status Report is to be prepared reporting expenditures on a cash or accrual basis and revenue on an accrual basis, with the exception of fees which should be reported on a cash basis as received.*

The difference between the amount reported on the accrual method and the actual cash received cannot be readily determined. However, the difference would likely have no impact on MDCH grant funding due to the level of “Local Funds” reported. Accordingly, no adjustment is being made in this report.

### **Recommendation**

We recommend that the Agency adopt policies and procedures to ensure compliance with the applicable FSR instructions, and report revenue accordingly.

## **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, 2014, is \$836,066. The attached Statement of 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**  
**Statement of Grant Program Revenues and Expenditures**  
**10/1/13 - 9/30/14**

	BUDGETED	REPORTED	AUDIT ADJUSTMENT	ALLOWABLE
<b>REVENUES:</b>				
MDCH Grant	\$836,066	\$836,066 <sup>1</sup>		\$836,066
Fees & Collections - 1st & 2nd Party	\$1,873,502	\$1,300,319		\$1,300,319
Local Funds - Other	\$583,978	\$665,271		\$665,271
<b>TOTAL REVENUES</b>	<b>\$3,293,546</b>	<b>\$2,801,656</b>	<b>\$0</b>	<b>\$2,801,656</b>
<b>EXPENDITURES:</b>				
Salary & Wages	\$1,511,209	\$1,245,407		\$1,245,407
Fringe Benefits	\$264,462	\$184,629		\$184,629
Supplies & Materials	\$520,076	\$414,707		\$414,707
Travel	\$25,793	\$21,821		\$21,821
Other	\$972,006	\$935,092		\$935,092
<b>TOTAL EXPENDITURES</b>	<b>\$3,293,546</b>	<b>\$2,801,656</b>	<b>\$0</b>	<b>\$2,801,656</b>
<sup>1</sup> Actual MDCH payments.				

## Corrective Action Plan

**Finding Number:** 1

**Page Reference:** 2

**Finding:** **Clients Improperly Charged for Services (Repeat)**

The Agency charged clients more than the allowed amount according to Title X program requirements.

**Recommendation:** Adopt policies and procedures to ensure that no clients are charged more than what they would otherwise pay when discounts are applied.

**Comments:** After the two issues involving the sliding fee scale were brought to Management's attention it was determined the clients with the incorrect payment amounts both occurred due to staff switching the patient's visit type and pay source during the visit. The EMR software was not sliding fees correctly if a patient's demographic information was entered in a particular order. While this finding (along with the citing from 2011) resulted in patient's being over charged the circumstances are different. Regardless, ultimately the expectation is to properly charge patients 100% of the time.

**Corrective Action:** In January 2015 Medical Services staff was trained on how to verify fees had been discounted properly by the software and to be aware of how changing a pay source during the course of an open visit could potentially cause an issue with payment calculations. The Billing Department has completed a review of all patients' accounts that could have had changes that were not accurate.

**Anticipated  
Completion Date:** Completed

**MDCH Response:** None

## Corrective Action Plan

**Finding Number:** 2

**Page Reference:** 3

**Finding:** Incomplete Billing and Collection Policy

The Agency's Billing and Collection Policy did not include some key elements that are required by the Michigan Title X Family Planning Program Standards & Guidelines Manual.

**Recommendation:** Update the Billing and Collection Policy to comply with the current Michigan Title X Family Planning Program Standards & Guidelines Manual (November 2014 version).

**Comments:** None

**Corrective Action:** The Agency will update and comply with the Billing and Collection Policy standards as described in the current Michigan Title X Family Planning Program Standards and Guidelines Manual.

**Anticipated  
Completion Date:** July 2015

**MDCH Response:** None

## Corrective Action Plan

**Finding Number:** 3

**Page Reference:** 4

**Finding:** Unapproved Salary and Wage Distribution Methodology (Repeat)

The Agency distributes salaries and wages based upon unduplicated client visits rather than the actual activity of each employee that is supported by personnel activity reports, and this method has not been approved as required.

**Recommendation:** Adopt policies and procedures for the distribution of payroll costs to comply with Federal cost principles. Consider the grant reforms contained at 2 CFR Part 200.430(i) related to the Standards for Documentation of Personnel Expenses that will be effective with awards issued for FYE 2016 in developing procedures. In the meantime and for the current FYE 2015 award, seek approval from MDCH for the current methodology of distributing payroll costs.

**Comments:** During FYE 2014 the Agency revised its classification process for patients in the EMR software that lead to an adjusted distribution methodology for salary and wages.

**Corrective Action:** Management has contacted MDCH to begin the process of establishing an approved allocation methodology. Management will review the grant reforms contained at 2 CFR Part 200.430(i) related to Standards of Documentation of Personnel Expenses.

**Anticipated  
Completion Date:** June 2015

**MDCH Response:** None



## Corrective Action Plan

**Finding Number:** 4

**Page Reference:** 5

**Finding:** Administrative Overhead Allocated Based on Budgeted Information (Repeat)

The Agency improperly used budget information to allocate administrative overhead expenses to the Family Planning Program.

**Recommendation:** Adopt policies and procedures to ensure that the administrative overhead cost pool is distributed based on actual results rather than budgeted plans.

**Comments:** Prior to FYE 2014, the Agency did not spread administrative charges to all programs. In FYE 2014 the Agency revised its administrative overhead plan to spread actual costs by a percentage that was established at the beginning of the year based on budgeted amounts. This change was necessary to spread costs to multiple departments.

**Corrective Action:** The Agency will allocate administrative overhead based on actual totals rather than budgeted amounts.

**Anticipated Completion Date:** May 2015

**MDCH Response:** None

## Corrective Action Plan

**Finding Number:** 5

**Page Reference:** 6

**Finding:** **Indirect Costs Reported Without an Approved Indirect Cost Rate**

The Agency reported indirect costs (administrative overhead) on the Financial Status Report (FSR) (under “Other Expense” as the MDCH budget allowed) without an approved indirect cost rate as required by MDCH instructions and Federal cost principles.

**Recommendation:** Seek approval from MDCH for the administrative overhead allocation and reporting methodology to be used in FYE 2015 in the absence of an approved indirect cost rate. We also recommend the Agency take action to ensure compliance with the grant reforms contained at 2 CFR Part 200.331(a)(4) related to indirect costs that will be effective with any new awards after December 26, 2014.

**Comments:** On February 11, 2015, the Agency received notification of an approved Federal Indirect Cost Rate of 15.10%.

**Corrective Action:** The Agency has been in communication with MDCH and is in the process of amending its budgets to incorporate this information.

**Anticipated  
Completion Date:** April 2015

**MDCH Response:** None

## Corrective Action Plan

**Finding Number:** 6

**Page Reference:** 6

**Finding:** **Fees and Collections Not Reported on a Cash Basis**

The Agency reported fees and collections on the Financial Status Report (FSR) based on an accrual method rather than the required cash basis.

**Recommendation:** Adopt policies and procedures to ensure compliance with the applicable FSR instructions, and report revenue accordingly.

**Comments:** Since FYE 2012 the Agency Finance Staff has worked diligently to comply with GAAP and FASB 954 rules in relation to revenue; especially for Medical Services. Reporting fees and collections on a cash basis is very different from the procedures that have been adopted to reflect accurate financial reporting to the Board of Directors and Budget & Finance Committee.

**Corrective Action:** The Agency Controller will determine the best way to move forward with reporting revenue on the FSR that is different/does not match the general ledger.

**Anticipated  
Completion Date:** September 2015

**MDCH Response:** None

## **Comments and Recommendations**

### **1. Fee Schedule Not Designed to Recover Cost and No Agency Policy as Required**

The Agency completed a detailed cost analysis in the first quarter of 2014 to determine the cost of providing each service. However, fees were set at approximately 50% of the amounts determined by the cost analysis. The Agency did not have an administration approved policy in place which designates the percentage of the cost the fee schedule is to represent.

The Code of Federal Regulations, 42 CFR 59.5(a)(8) requires that charges will be made in accordance with a schedule of fees designed to recover the reasonable cost of providing services. MDCH, through the Michigan Title X Family Planning Program Standards & Guidelines Manual, allows agencies to set fees lower than what is required to recover actual costs, based on community needs and circumstances. However, to do so, the Agency must have an administration approved policy in place which designates the percentage of the cost the fee schedule is to represent according to Section 6.3.1 B (Section 8.4.4 A of the November 2014 Manual).

#### **Recommendation**

We recommend the Agency adopt a policy which designates the percentage of the cost the fee schedule is to represent according to the Michigan Title X Family Planning Program Standards & Guidelines Manual (Section 8.4.4 A of the November 2014 Manual).

#### **Agency Response**

PPWNM will take the actions recommended.

### **2. Expired Lease Agreement (Repeat)**

The Agency leases nine properties for the provision of services. Of the nine leased properties, one lease agreement with the Ionia County Health Department expired on September 30, 2007 and a new agreement had not been negotiated as of September 30, 2014. When leasing property from outside parties, sound business practices dictate the use of signed agreements to protect the interests of the Agency. This issue was also cited during our FYE 2011 audit and the Agency stated that they were aware of the issue, that they continued to operate in compliance with the terms of the lease, and that they would strive to continue to meet community needs while working with Ionia County regarding leased space. At the time of the audit fieldwork, we were informed that the Agency intended to move out of this leased space by the end of 2014.

**Recommendation**

We recommend the Agency adopt policies and procedures to ensure any leased space is supported by a current lease agreement so the terms and conditions are clearly identified in a legally binding agreement.

**Agency Response**

Leases are all up to date.