



STATE OF MICHIGAN

DEPARTMENT OF HEALTH AND HUMAN SERVICES
LANSING

GRETCHEN WHITMER
GOVERNOR

ROBERT GORDON
DIRECTOR

January 14, 2019

Steve Alsum, CFO
Grand Rapids Red Project
401 Hall Street SE
Grand Rapids, Michigan 49507

Dear Mr. Alsum:

Attached is our final report from the Michigan Department of Health and Human Services (MDHHS) audit of the Grand Rapids Red Project Ryan White Part B and HIV Prevention Programs for the period October 1, 2016 through May 31, 2018.

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 Comments and Recommendations. The Comments and Recommendations include the agency's response to the Preliminary Analysis.

Final reports are posted for public viewing on the MDHHS 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.

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 Programs Section
Audit Division

Attachment

cc: Deb Hallenbeck, Director, Audit Division
Dawn Lukomski, Manager, HIV Care and Prevention Section
Thomas Dunn, Manager, Division of HIV and STD Programs
Lance Yuan, Auditor, Population Health and Community Services Programs Section

Audit Report

Grand Rapids Red Project

Ryan White Part B and HIV Prevention Programs

October 1, 2016 – May 31, 2018



Bureau of Audit

Audit Division

January 2019

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DESCRIPTION OF AGENCY

The Grand Rapids Red Project ("Agency") is organized as a not-for-profit corporation, under the provision of 501(c) (3) of the Internal Revenue Code, with the mission of improving health, reducing risk, and preventing HIV. The Agency operates under the legal supervision and control of its volunteer Board of Directors.

The Agency offers medical and non-medical case management, child care services, emergency financial assistance, psychosocial support, and medical transportation services. The Agency is located in Grand Rapids, Michigan and serves the residents of Kent County.

FUNDING METHODOLOGY

The Agency receives funding from grant programs administered through the Michigan Department of Health and Human Services (MDHHS). MDHHS grant funding is reimbursed monthly, based on Financial Status Reports, in accordance with the terms and conditions of each grant agreement and budget.

The HIV Care Formula Grants (Ryan White HIV/AIDS Program Part B) (RWHAP) was funded by MDHHS Grant Funds. Grant funding from MDHHS for the RWHAP Part B Program is Federal funding under Federal catalog number 93.917.

The HIV Prevention Program was funded by MDHHS Grant Funds. Grant funding from MDHHS for the HIV Prevention Program is Federal funding under Federal catalog number 93.940

PURPOSE AND OBJECTIVES

The purpose of this audit was to assess the Agency's financial reporting and to determine the MDHHS shares of cost according to the agreements, and program standards and regulations. The following were the specific objectives of the audit:

1. To assess the Agency's effectiveness and accuracy in reporting its financial activity to MDHHS in accordance with MDHHS requirements and agreements, Federal standards, and generally accepted accounting principles.
2. To determine the MDHHS shares of cost in accordance with MDHHS requirements and agreements, Federal standards and program standards, and any balance due to or due from the Agency.

SCOPE AND METHODOLOGY

We examined the Agency's records and activities for the fiscal periods October 1, 2016 to September 30, 2017 and October 1, 2017 to May 31, 2018. Our review procedures included the following:

- Reviewed the completed Subrecipient Questionnaire;
- Reconciled RWHAP Part B and HIV Prevention Programs Financial Status Reports (FSRs) 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 other costs for proper reporting and compliance with Federal requirements;
- Reviewed equipment purchases over \$5,000 for the RWHAP Part B and Prevention Programs;
- Reviewed RWHAP Part B client eligibility.

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 and accuracy in reporting its financial activity to MDHHS in accordance with MDHHS requirements and agreements, Federal standards, and generally accepted accounting principles.

Conclusion: The Agency was effective and accurate in reporting its financial activity to MDHHS in accordance with MDHHS requirements and agreements, Federal standards, and generally accepted accounting principles. We noted no reportable findings.

MDHHS SHARES OF COST AND BALANCE DUE

Objective 2: To determine the MDHHS shares of cost in accordance with MDHHS requirements and agreements, and any balance due to or due from the Agency.

Conclusion: The MDHHS obligation under the RWHAP Part B Program for fiscal year ended September 30, 2017 is \$244,785 and the period ended of May 31, 2018 is \$142,108. The MDHHS obligation Federal Standards and Program Standards under the HIV Prevention Program for fiscal year ended September 30, 2017 is \$104,870 and the period as of May 31, 2018 is \$71,293. The attached Statements of Grant Program Revenues and Expenditures show the budgeted, reported, and allowable costs.

**Grand Rapids Red Project
Ryan White B
Statement of Grant Program Revenues and Expenditures
10/1/16 - 9/30/17**

| | BUDGETED | REPORTED | AUDIT ADJUSTMENT | ALLOWABLE |
|---------------------------|-----------------|------------------------|-----------------------------|------------------|
| REVENUES: | | | | |
| MDHHS Grant | \$245,541 | \$244,785 ¹ | | \$244,785 |
| TOTAL REVENUES | \$245,541 | \$244,785 | \$0 | \$244,785 |
| EXPENDITURES: | | | | |
| Salary & Wages | \$143,190 | \$158,401 | | \$143,190 |
| Fringe Benefits | \$35,798 | \$29,551 | | \$35,798 |
| Travel | \$10,323 | \$13,211 | | \$10,323 |
| Supplies and Materials | \$11,000 | \$9,669 | | \$11,000 |
| Contractual | \$0 | \$0 | | \$0 |
| Equipment | \$0 | \$0 | | \$0 |
| Other Expenses | \$45,230 | \$33,953 | | \$45,230 |
| TOTAL EXPENDITURES | \$245,541 | \$244,785 | \$0 | \$245,541 |

¹ Actual MDHHS payments

**Grand Rapids Red Project
Ryan White B
Statement of Grant Program Revenues and Expenditures
10/1/17 - 5/31/18**

| | BUDGETED | REPORTED | AUDIT ADJUSTMENT | ALLOWABLE |
|---------------------------|-----------------|------------------------|-----------------------------|------------------|
| REVENUES: | | | | |
| MDHHS Grant | \$245,541 | \$142,108 ¹ | | \$142,108 |
| TOTAL REVENUES | \$245,541 | \$142,108 | \$0 | \$142,108 |
| EXPENDITURES: | | | | |
| Salary & Wages | \$153,691 | \$96,513 | | \$96,513 |
| Fringe Benefits | \$30,738 | \$17,262 | | \$17,262 |
| Travel | \$11,077 | \$6,910 | | \$6,910 |
| Supplies and Materials | \$11,040 | \$3,753 | | \$3,753 |
| Contractual | \$0 | \$0 | | \$0 |
| Equipment | \$0 | \$0 | | \$0 |
| Other Expenses | \$38,995 | \$17,670 | | \$17,670 |
| TOTAL EXPENDITURES | \$245,541 | \$142,108 | \$0 | \$142,108 |

¹ Actual MDHHS payments

**Grand Rapids Red Project
Prevention
Statement of Grant Program Revenues and Expenditures
10/1/16 - 9/30/17**

| | BUDGETED | REPORTED | AUDIT ADJUSTMENT | ALLOWABLE |
|---------------------------|-----------------|------------------------|-----------------------------|------------------|
| REVENUES: | | | | |
| MDHHS Grant | \$104,870 | \$104,870 ¹ | | \$104,870 |
| TOTAL REVENUES | \$104,870 | \$104,870 | \$0 | \$104,870 |
| EXPENDITURES: | | | | |
| Salary & Wages | \$61,266 | \$66,403 | | \$66,403 |
| Fringe Benefits | \$15,317 | \$14,773 | | \$14,773 |
| Travel | \$4,055 | \$3,332 | | \$3,332 |
| Supplies and Materials | \$15,612 | \$6,900 | \$146 ² | \$7,046 |
| Contractual | \$0 | \$0 | | \$0 |
| Equipment | \$0 | \$0 | | \$0 |
| Other Expenses | \$8,620 | \$13,463 | (\$146) ² | \$13,317 |
| TOTAL EXPENDITURES | \$104,870 | \$104,870 | \$0 | \$104,870 |

¹ Actual MDHHS payments

² Misclassification of Expenses (Comments and Recommendations 2)

**Grand Rapids Red Project
Prevention
Statement of Grant Program Revenues and Expenditures
10/1/17 - 5/31/18**

| | BUDGETED | REPORTED | AUDIT ADJUSTMENT | ALLOWABLE |
|---------------------------|-----------------|-----------------------|-----------------------------|------------------|
| REVENUES: | | | | |
| MDHHS Grant | \$104,870 | \$71,293 ¹ | | \$71,293 |
| TOTAL REVENUES | \$104,870 | \$71,293 | \$0 | \$71,293 |
| EXPENDITURES: | | | | |
| Salary & Wages | \$68,900 | \$46,136 | | \$46,136 |
| Fringe Benefits | \$13,780 | \$8,524 | | \$8,524 |
| Travel | \$4,016 | \$4,084 | | \$4,084 |
| Supplies and Materials | \$9,554 | \$5,075 | (\$49) ² | \$5,025 |
| Contractual | \$0 | \$0 | | \$0 |
| Equipment | \$0 | \$0 | | \$0 |
| Other Expenses | \$8,620 | \$7,473 | \$49 ² | \$7,523 |
| TOTAL EXPENDITURES | \$104,870 | \$71,293 | \$0 | \$71,293 |

¹ Actual MDHHS payments

² Misclassification of Expenses (Comments and Recommendations 2)

Comments and Recommendations

1. Invoices Did Not Have Proper Authorization Prior to Payment

The Grand Rapids Red Project did not obtain management authorization on all of its invoices prior to payment. Title 2 CFR 200.302(b) states, "The financial management system of each non-Federal entity must provide for the following...(3) Records that identify adequately the source and application of funds for federally-funded activities. These records must contain information pertaining to Federal awards, authorizations, obligations, unobligated balances, assets, expenditures, income and interest and be supported by source documentation." During our RWHAP Part B review, we noted that six (67%) of nine invoices for FY 2017 and 12 (55%) of 22 invoices for FY 2018 did not have management approval prior to payment. Also, during our HIV Prevention review, we noted that two (50%) of four invoices for FY 17 and 17 (100%) of 17 invoices for 2018 did not have management approval prior to payment. We recommend that the Agency implement controls to ensure proper management approval on all invoices prior to payment to ensure compliance with Federal regulation.

Management's Response: We agree that our payment authorization process needed to be improved. Management did give authorization before payments were made but it was done verbally or implied when the coded invoices were given to the accountant. Moving forward, each invoice or receipt will be initialed or signed to show payment authorization unless it is on the list of approved recurring expenses which will be reviewed annually. The new process was started in October of 2018.

Person Responsible

for Implementation: Steve Alsum, Executive Director and Jennifer LeCoy, Accountant

Completion Date: October 1, 2018

2. Misclassification of Expenses

The Agency improperly classified its HIV Prevention expenses on its FSRs. The MDHHS Financial Status Report Preparation Instructions define supplies and materials in Section IV. Form Preparation, Part E.4 as, "Use for all consumable and short-term items and equipment items with a cost of less than five thousand dollars (\$5,000) each. This includes office, printing, janitorial, postage, and education supplies; medical supplies; contraceptives and vaccines; tape and gauze; educational films, etc., according to the requirements of each applicable program." Also, Part E.7 defines other expenses as, "This category includes other allowable costs incurred for the benefit of the program. Identify on the available lines the same items identified in the approved Program Budget." During our review, we noted that the Agency underreported HIV Prevention supplies and materials by \$146 and overreported other

expenses by \$146 on its FY 2017 FSR. We also noted that the Agency overreported HIV Prevention supplies and materials by \$49 and underreported other expenses by \$49 on its 2018 FSRs. The expenditures offset each other and did not have any grant impact either year. The Agency did not have sufficient controls to ensure that all of its expenditures were classified and reported on the appropriate line item. We recommend that the Agency implement policies and procedures to ensure that all expenditures are properly classified.

Management's Response: To prevent this from happening again, the accountant and management will review the line items each month in more detail before the information gets reported. A copy of the reports used will be saved in an electronic folder for current and future reference. The accountant will prepare the reports and management will review and submit the information.

Person Responsible

for Implementation: Steve Alsum, Executive Director and Jennifer LeCoy, Accountant

Completion Date: October 1, 2018