



STATE OF MICHIGAN

GRETCHEN WHITMER  
GOVERNOR

DEPARTMENT OF HEALTH AND HUMAN SERVICES  
LANSING

ROBERT GORDON  
DIRECTOR

September 12, 2019

Dr. Kim Hyung, President  
Mercy Health Saint Mary's  
200 Jefferson  
Grand Rapids, Michigan 49503

Dear Dr. Hyung:

Attached is our final report from the Michigan Department of Health and Human Services audit of the Mercy Health Saint Mary's Ryan White HIV/AIDS Program (RWHAP) Part B and Part D for the period October 1, 2016 through June 30, 2018.

The final report contains the following: Description of Agency; Funding Methodology; Purpose and Objectives; Scope and Methodology; Conclusions, Findings, and Recommendations; and, Statements of Grant Program Revenues and Expenditures.

Final reports are posted for public viewing on the MDHHS website at:  
[https://www.michigan.gov/mdhhs/0,5885,7-339-73970\\_43164-151236--,00.html](https://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, MBA  
Audit Section Manager  
Public Health and Community Services Programs Section  
Audit Division

Attachment

cc: Debra Hallenbeck, Director, Audit Division  
Cole T. Blades, Auditor, Public Health and Community Services Programs Section  
Matthew Tompkins, Auditor, Public Health and Community Services Programs Section  
Thomas Dunn, Section Manager, Operations, Training and Data Section  
Shawna Brown, Manager, Operations Monitoring Unit  
Christina Finkler, Senior Financial Analyst, Mercy Health Saint Mary's  
Amber Schippers, Senior Accountant, Mercy Health Saint Mary's  
Sarah Sheldon, Project Director, Mercy Health Saint Mary's

# Audit Report

Mercy Health Saint Mary's  
(Trinity Health Corporation)

Ryan White Part B  
and  
Ryan White Part D Programs

October 1, 2016 – June 30, 2018



Bureau of Audit  
Audit Division  
September 2019

# TABLE OF CONTENTS

	Page
Description of Agency .....	1
Funding Methodology.....	1
Purpose and Objectives .....	1
Scope and Methodology.....	2
 <u>Conclusions, Findings, and Recommendations</u>	
<u>Financial Reporting</u> .....	2
1. Improper Expenditure Allocation .....	3
2. FSR Misclassifications and Exceeded Budget Deviation Allowances .....	4
3. Improper Allocation and Insufficient Documentation to Support Fringe Benefit Expenses .....	5
<u>MDHHS Shares of Cost and Balance Due</u> .....	6
Statement of Grant Program Revenues and Expenditures – FY 2017 HIV/AIDS - Ryan White Part B.....	7
Statement of Grant Program Revenues and Expenditures – FY 2018 - Ryan White Part B.....	8
Statement of Grant Program Revenues and Expenditures – FY 2017 HIV/AIDS - Ryan White Part D.....	9
Statement of Grant Program Revenues and Expenditures – FY 2018 HIV/AIDS - Ryan White Part D.....	10
Corrective Action Plans .....	11

## **DESCRIPTION OF AGENCY**

Mercy Health Saint Mary's (Agency) is a hospital owned by Trinity Health Corporation (Corporation), an Indiana non-profit corporation headquartered in Livonia, Michigan which controls one of the largest health care systems in the United States. The Corporation is sponsored by the Catholic Health Ministries, a Public Juridic Person of the Holy Roman Catholic Church, and operates a comprehensive integrated network of health services located in 22 states.

The Agency provides comprehensive medical, psychosocial, educational and prevention services to persons living with HIV/AIDS. The Agency is located in Grand Rapids, Michigan and provides these services for the residents of Ionia, Kent, Lake, Manistee, Mecosta, Mason, Montcalm, Muskegon, Newaygo, Oceana, and Ottawa Counties.

## **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 (FSRs), in accordance with the terms and conditions of each grant agreement and budget.

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

The HIV Care Formula Grants RWHAP Part D was funded by MDHHS Grant Funds. Grant Funding from MDHHS for the RWHAP Part D is federal funding under Federal catalog number 93.153.

## **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, program standards and generally accepted accounting principles.
2. To determine the MDHHS shares of cost in accordance with MDHHS requirements and the 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 period October 1, 2016 to June 30, 2018. Our review procedures included the following:

- Reviewed the Grant Agreements, Budgets, and Program Specific Assurances and Requirements.
- Reviewed the most recent Agency Single Audit and Financial Statement Audit reports for any related Program concerns.
- Reviewed the completed Fiscal Questionnaire.
- Reconciled the RWHAP Part B and RWHAP Part D 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 indirect cost and other cost allocations for reasonableness, and an equitable methodology.

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, program standards, and generally accepted accounting principles.

**Conclusion:** The Agency was not effective or accurate in reporting its financial activity to MDHHS in accordance with MDHHS requirements and agreements, Federal standards, program standards, and generally accepted accounting principles. We identified the following exceptions: improper expenditure allocation (Finding 1), FSR misclassifications and exceeded budget deviation allowances (Finding 2), and improper allocation and insufficient documentation to support fringe benefit expenses (Finding 3).

## **Finding**

### **1. Improper Expenditure Allocation**

Federal Agency	U.S. Department of Health and Human Services
Federal Sub-Tier	Health Resources and Services Administration (HRSA)
Program Title	HIV Care Formula Grants
CFDA Number	93.917
Project Title	Ryan White HIV/AIDS Program Part B
Amount Due to MDHHS	\$0
Repeat Finding	No

The Agency did not properly allocate an expenditure to the appropriate benefiting program.

Title 2 CFR 200.405(a) Allocable Costs states, “A cost is allocable to a particular Federal award or other cost objective if the goods or services involved are chargeable or assignable to that Federal award or cost objective in accordance with the relative benefits received.” In addition, Title 2 CFR 200.303 states, “The non-Federal entity must: (a) Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and the conditions of the Federal award...” Title 2 CFR 200.62 defines internal control over compliance requirements for Federal awards as “a process implemented by a non-Federal entity designed to provide reasonable assurance regarding the achievement of the following objectives for Federal Awards: (a) Transactions are properly recorded and accounted for...”

During our FY 2018 review, we noted a health insurance premium of \$200 paid on behalf of a client was improperly recorded to the RWHAP Part B cost center. This expenditure related to another program. The Agency did not have sufficient controls in place to ensure its expenditures were properly recorded to the appropriate benefiting programs. An adjustment to allowable expenditures as of June 30, 2018 is shown on the attached FY 2018 RWHAP Part B Statement of Grant Program Revenues and Expenditures and reflected on the Other Expenses line. The Agency commented that the improperly allocated expense was corrected in a subsequent period. However, due to auditing a partial fiscal year, we will verify this correction was made and will determine if any amount is due back to MDHHS for FYE September 30, 2018 during our next monitoring visit.

## **Recommendation**

We recommend that the Agency implement sufficient controls and procedures to properly allocate and record its expenditures to the appropriate benefiting programs to ensure compliance with Federal regulation.

## **Finding**

### **2. FSR Misclassifications and Exceeded Budget Deviation Allowances**

Federal Agency	U.S. Department of Health and Human Services
Federal Sub-Tier	Health Resources and Services Administration (HRSA)
Program Title	HIV Care Formula Grants
CFDA Number	93.917
Project Title	Ryan White HIV/AIDS Program Part B
Amount Due to MDHHS	\$0
Repeat Finding	No

The Agency did not properly classify all expenses on its FSR. Also, the Agency did not comply with contractual budget deviation allowance provisions.

The MDHHS preparation instructions for the FSR define expenditures in Section IV. Form Preparation, Part E, which states, "...1. Salaries and Wages – ...This category includes the compensation paid to all permanent and part-time employees on the payroll...and assigned directly to the program...2. Fringe Benefits – This category is to include the employer's contributions for insurance, retirement, FICA, and other similar benefits for all permanent and part-time employees assigned to the program. 3. Travel – Use **only** for travel costs of permanent and part-time employees assigned to the program. This includes cost for mileage, per diem, lodging, registration fees, and approved seminars or conferences, and other approved travel costs...7. Other Expenses – this category includes other allowable costs incurred for the benefit of the program...Some of the more significant groups or sub-categories of costs follow a. Consultant Services...b. Patient Care...c. Rentals and Leases...d. Communication Costs...e. Other..." Also, the Agency's grant agreement with MDHHS, Part 1, 2. C Deviation Allowance states, "A deviation allowance modifying an established budget category by \$10,000 or 15%, whichever is greater, is permissible without prior written approval of the Department. Any modification or deviations in excess of this provision...must be made in writing and executed by all parties to this agreement before modifications can be implemented."

During our reconciliation of the FYE 2017 RWHAP Part B accounting records to the FSR, we noted that the Agency improperly capped their fringe benefits, travel, and other expenses line items and improperly reported the excess expenses on the salaries and wages line. We also noted that as of May 31, 2017 the Agency had \$72,359 in fringe benefit expenditures, which had already exceeded the annual budgeted amount, but no budget amendment was pursued. The Agency should have reassessed its budget categories and should have sought a budget amendment to account for the increased costs.

## **Recommendation**

We recommend that the Agency implement sufficient controls and procedures to properly amend program budgets when necessary. We also recommend that the Agency implement policies and procedures to ensure the proper classification and accurate reporting of all expenditures on the appropriate line of the FSR.

## **Finding**

### **3. Improper Allocation and Insufficient Documentation to Support Fringe Benefit Expenses**

Federal Agency	U.S. Department of Health and Human Services
Federal Sub-Tier	Health Resources and Services Administration (HRSA)
Program Title	HIV Care Formula Grants
CFDA Number	93.917
Project Title	Ryan White HIV/AIDS Program Part B
Amount Due to MDHHS	\$0
Repeat Finding	No

Federal Agency	U.S. Department of Health and Human Services
Federal Sub-Tier	Health Resources and Services Administration (HRSA)
Program Title	Ryan White Title IV Women, Infants, Children Youth and Affected Family Members AIDS Healthcare
CFDA Number	93.153
Project Title	Ryan White HIV/AIDS Program Part D
Amount Due to MDHHS	\$0
Repeat Finding	No

The Agency did not properly allocate and provide sufficient documentation to support the allocation of fringe benefit expenditures.

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...be supported by source documentation."

Also, Title 2 CFR 200.431 states, "(a)...the costs of fringe benefits are allowable provided that the benefits are reasonable and are required by law, non-Federal entity-employee agreement, or an established policy of the non-Federal entity... (c) The cost of fringe benefits in the form of employer contributions or expenses for social security; employee life, health, unemployment, and worker's compensation insurance; pension plan costs; and other similar benefits are allowable, provided such benefits are granted under established written policies. Such benefits, must be allocated to Federal awards and all other activities in a manner consistent with the pattern of benefits attributable to the individuals or group(s) of employees whose salaries and wages are chargeable to such Federal awards and other activities, and charged as direct or indirect costs in accordance with the non-Federal entity's accounting practices...(d) Fringe benefits may be assigned to cost objectives by identifying specific benefits to specific individual employees or by allocating on the basis of entity-wide salaries and wages of employees receiving the benefits."



During our review, we noted that the Agency did not properly calculate its fringe benefit allocations. The Agency stated it used a 27% composite rate to allocate fringe benefit costs; however, we found that the 27% composite rate was not consistently used, and was not supported as representing actual costs incurred. We reviewed February 2018 and noted that the Agency overstated its fringe benefit expense by \$2,339, if using a 27% composite rate for RWHAP Part B. We also noted that the Agency could not provide sufficient documentation to support the 27% composite rate.

An adjustment correcting the overstatement to the fringe benefit line is shown on the attached FY 2018 RWHAP Part B Statement of Grant Program Revenues and Expenditures; however, due to auditing a partial fiscal year, we will determine if any amount is due back to MDHHS for FYE September 30, 2018 during our next monitoring visit.

### **Recommendation**

We recommend that the Agency implement sufficient controls and procedures to ensure the proper allocation of expenses and sufficient documentation to support all allocated expenditures reported on its FSR.

## **MDHHS SHARES OF COST AND BALANCE DUE**

**Objective 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.

**Conclusion:** The MDHHS obligations under RWHAP Part B for fiscal year ended September 30, 2017 is \$407,959 and the period ended June 30, 2018 is \$284,861. The MDHHS obligations under RWHAP Part D for fiscal year ended September 30, 2017 is \$136,478 and the period ended June 30, 2018 is \$73,478. The attached Statements of Grant Program Revenues and Expenditures show the budgeted, reported, and allowable costs.

**Mercy Health Saint Mary's**  
**Ryan White Part B**  
**Statement of Grant Program Revenues and Expenditures**  
**10/1/16 - 9/30/17**

	<b>BUDGETED</b>	<b>REPORTED</b>	<b>AUDIT ADJUSTMENT</b>	<b>ALLOWABLE</b>
<b>REVENUES:</b>				
MDHHS Grant	\$408,031	\$407,959 <sup>1</sup>		\$407,959
<b>TOTAL REVENUES</b>	\$408,031	\$407,959	\$0	\$407,959
<b>EXPENDITURES:</b>				
Salary & Wages	\$263,680	\$251,043		\$251,043
Fringe Benefits	\$71,194	\$81,873		\$81,873
Travel	\$1,006	\$1,157		\$1,157
Supplies and Materials	\$0	\$0		\$0
Contractual	\$0	\$0		\$0
Equipment	\$0	\$0		\$0
Other Expenses	\$32,000	\$36,800		\$36,800
Indirect Costs	40,151	37,087		37,087
<b>TOTAL EXPENDITURES</b>	\$408,031	\$407,959	\$0	\$407,959

<sup>1</sup> Actual MDHHS payments.

**Mercy Health Saint Mary's**  
**Ryan White Part B**  
**Statement of Grant Program Revenues and Expenditures**  
**10/1/17 - 6/30/18**

	<b>BUDGETED</b>	<b>REPORTED</b>	<b>AUDIT ADJUSTMENT</b>	<b>ALLOWABLE</b>
<b>REVENUES:</b>				
MDHHS Grant	\$408,031	\$287,400 <sup>1</sup>	(\$2,539) <sup>2,3</sup>	\$284,861
<b>TOTAL REVENUES</b>	\$408,031	\$287,400	(\$2,539)	\$284,861
<b>EXPENDITURES:</b>				
Salary & Wages	\$267,244	\$180,453		\$180,453
Fringe Benefits	\$72,156	\$66,649	(\$2,339) <sup>3</sup>	\$64,310
Travel	\$1,215	\$0		\$0
Supplies and Materials	\$0	\$0		\$0
Contractual	\$0	\$0		\$0
Equipment	\$0	\$0		\$0
Other Expenses	\$30,322	\$14,170	(\$200) <sup>2</sup>	\$13,970
Indirect Costs	37,094	26,127		26,127
<b>TOTAL EXPENDITURES</b>	\$408,031	\$287,400	(\$2,539)	\$284,861

<sup>1</sup> Actual MDHHS payments.

<sup>2</sup> Improper Expenditure Allocation (Finding 1)

<sup>3</sup> Improper Allocation and Insufficient Documentation to Support Fringe Benefit Expenses (Finding 3)

**Mercy Health Saint Mary's  
HIV/AIDS Ryan White Part D  
Statement of Grant Program Revenues and Expenditures  
10/1/16 - 9/30/17**

	<b>BUDGETED</b>	<b>REPORTED</b>	<b>AUDIT ADJUSTMENT</b>	<b>ALLOWABLE</b>
<b>REVENUES:</b>				
MDHHS Grant	\$160,499	\$136,805 <sup>1</sup>		\$136,805
<b>TOTAL REVENUES</b>	\$160,499	\$136,805	\$0	\$136,805
<b>EXPENDITURES:</b>				
Salary & Wages	\$104,074	\$97,159		\$97,159
Fringe Benefits	\$28,100	\$26,233		\$26,233
Travel	\$7,024	\$932		\$932
Supplies and Materials	\$0	\$0		\$0
Contractual	\$0	\$0		\$0
Equipment	\$0	\$0		\$0
Other expenses	\$3,766	\$44		\$44
Indirect Costs	\$17,535	\$12,437		\$12,437
<b>TOTAL EXPENDITURES</b>	\$160,499	\$136,805	\$0	\$136,805

<sup>1</sup> Actual MDHHS payments.

**Mercy Health Saint Mary's  
HIV/AIDS Ryan White Part D  
Statement of Grant Program Revenues and Expenditures  
10/1/17 - 6/30/2018**

	<b>BUDGETED</b>	<b>REPORTED</b>	<b>AUDIT ADJUSTMENT</b>	<b>ALLOWABLE</b>
<b>REVENUES:</b>				
MDHHS Grant	\$165,245	\$73,478 <sup>1</sup>		\$73,478
<b>TOTAL REVENUES</b>	\$165,245	\$73,478	\$0	\$73,478
<b>EXPENDITURES:</b>				
Salary & Wages	\$111,736	\$52,597		\$52,597
Fringe Benefits	\$30,169	\$14,201		\$14,201
Travel	\$756	\$0		\$0
Supplies and Materials	\$0	\$0		\$0
Contractual	\$0	\$0		\$0
Equipment	\$0	\$0		\$0
Other expenses	\$7,562	\$0		\$0
Indirect Costs	\$15,022	\$6,680		\$6,680
<b>TOTAL EXPENDITURES</b>	\$165,245	\$73,478	\$0	\$73,478
<sup>1</sup> Actual MDHHS payments.				

## Corrective Action Plan

**Finding Number:** 1

**Page Reference:** 3

**Finding:** Improper Expenditure Allocation

The Agency did not properly allocate an expenditure to the appropriate benefiting program.

**Recommendation:** Implement sufficient controls and procedures to properly allocate and record expenditures to the appropriate benefiting programs to ensure compliance with Federal regulation.

**Comments:** Implemented a monthly review process that includes the Financial Analyst, Senior Accountant, and Project Director.

**Corrective Action:** Corrected the posting in a subsequent journal entry.

**Person Responsible  
for Implementation:** Amber Schippers, Senior Accountant

**Anticipated  
Completion Date:** August 2019

## Corrective Action Plan

**Finding Number:** 2

**Page Reference:** 4

**Finding:** **FSR Misclassifications and Exceeded Budget Deviation Allowances**

The Agency did not properly classify all expenses on its FSR. Also, the Agency did not comply with contractual budget deviation allowance provisions.

**Recommendation:** Implement sufficient controls and procedures to properly amend program budget when necessary. Also, implement policies and procedures to ensure the proper classification and accurate reporting of all expenditures on the appropriate line of the FSR.

**Comments:** Implemented a monthly review process that includes the Financial Analyst, Senior Accountant and Project Director.

**Corrective Action:** Implemented a monthly review process to ensure all expenses are properly classified and reported on the FSR to ensure compliance with grant requirements and budget deviations.

**Person Responsible for Implementation:** Project Director and Senior Accountant

**Anticipated Completion Date:** May 2018

## Corrective Action Plan

**Finding Number:** 3

**Page Reference:** 5

**Finding:** Improper Allocation and Insufficient Documentation to Support Fringe Benefit Expenses

The Agency did not properly allocate and provide sufficient documentation to support the allocation of fringe benefit expenditures.

**Recommendation:** Implement sufficient controls and procedures to ensure the proper allocation of expenses and sufficient documentation to support all allocated expenditures reported on its FSR.

**Comments:** Mercy Health Saint Mary's, as an organization, goes through a rigorous process, while developing our fiscal year budget, to determine an appropriate percentage of benefits to budget per full time employee. This amount is then recorded in the general ledger on a monthly basis throughout the year.

**Corrective Action:** During the next site visit, Mercy Health Saint Mary's will share the fringe benefit calculation methodology with the auditors.

**Person Responsible for Implementation:** Senior Financial Analyst and Senior Accountant

**Anticipated Completion Date:** December 2019