



STATE OF MICHIGAN

DEPARTMENT OF HEALTH AND HUMAN SERVICES  
LANSING

GRETCHEN WHITMER  
GOVERNOR

ROBERT GORDON  
DIRECTOR

August 1, 2019

Mr. Tim Neal, Project Director  
Sacred Heart Rehabilitation Center, Inc.  
301 E. Genesee, Suite 201  
Saginaw, Michigan 48607

Dear Mr. Neal:

Attached is our final report from the Michigan Department of Health and Human Services audit of the Sacred Heart Rehabilitation Center, Inc., Ryan White HIV/AIDS Program (RWHAP) Part B for fiscal year ended September 30, 2017 and the period ended 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](http://www.michigan.gov/mdhhs/0,5885,7-339-73970_43164-151236--,00.html).

Thank you for the cooperation extended throughout this audit process.

Sincerely,

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

Attachment

cc: Debra Hallenbeck, Director, Audit Division  
Lance Yuan, Auditor, Population Health and Community Services Programs Audit Section  
Shawna Brown, Operations Monitoring Unit Manager, Division of HIV and STD Programs  
Thomas Dunn, Operations, Training and Data Section Manager, Division of HIV and STD Programs  
Dawn M. Lukomski, HIV Care and Prevention Section Manager, Division of HIV and STD Programs  
Lorrie Youngs, Acting Manager, Continuum of Care Unit, Division of HIV and STD Programs  
Pam Ardoin, CFO, Sacred Heart Rehabilitation Center, Inc.  
Marcia Lott, Accountant, Sacred Heart Rehabilitation Center, Inc.

# Audit Report

Sacred Heart Rehabilitation Center, Inc.

HIV/AIDS - Ryan White Part B

October 1, 2017 – May 31, 2018



Bureau of Audit

Audit Division

August 2019

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## **DESCRIPTION OF AGENCY**

Sacred Heart Rehabilitation Center, Inc. ("Agency") is organized as a not-for-profit corporation, under the provision of 501(c) (3) of the Internal Revenue Code. The Agency's AIDS Care Program purpose is to provide case management care services to eligible HIV-positive clients residing in the State of Michigan. The Agency is located in Saginaw, Michigan and serves the residents of Genesee, Saginaw, Sanilac, Tuscola, Gladwin, Huron, Lapeer, Midland, Arenac, Bay, and Clare Counties.

## **FUNDING METHODOLOGY**

The Agency receives funding from grant programs administered through the Michigan Department of Health and Human Services (MDHHS) and other local funds. 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 AIDS Care Program was funded by the HIV Care Formula Grants (Ryan White HIV/AIDS Program [RWHAP] Part B). Grant funding from MDHHS for the RWHAP Part B is federal funding under Federal catalog number 93.917.

## **PURPOSE AND OBJECTIVES**

The purpose of this audit was to assess the Agency's financial reporting and to determine the MDHHS share of cost according to the agreement, 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 the agreement, Federal standards, program standards and generally accepted accounting principles.
2. To determine the MDHHS share of cost in accordance with MDHHS requirements and the agreement, 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, 2017 to May 31, 2018. Our review procedures included the following:

- Reviewed the Grant Agreement, Budgets, and Program Specific Assurances and Requirements.
- Reviewed the completed Fiscal Questionnaire.
- Reviewed fiscal related policies and procedures.

- Reconciled RWHAP Part B Financial Status Report (FSR) to the accounting records.
- Reviewed a sample of payroll expenditures.
- Tested a sample of expenditures for program compliance and adherence to policy and approval procedures.
- Reviewed building space/lease costs for proper reporting and compliance with Federal requirements.
- Reviewed 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 the agreement, 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 the agreement, Federal standards, program standards and generally accepted accounting principles. We identified the following exceptions: FSR not supported by accounting records (Finding 1), improper reporting of indirect costs (Finding 2), non-compliant allocation of health insurance fringe benefits (Finding 3), and improper allocation and insufficient documentation to support expenses (Finding 4).

#### **Finding**

##### **1. FSR Not Supported by Accounting Records**

<b>Federal Agency</b>	U.S. Department of Health and Human Services
<b>Federal Sub-Tier</b>	Health Resources and Services Administration (HRSA)
<b>Program Title</b>	HIV Care Formula Grants
<b>CFDA Number</b>	93.917
<b>Project Title</b>	Ryan White HIV/AIDS Program Part B
<b>Amount Due to MDHHS</b>	\$0
<b>Repeat Finding</b>	Not Applicable

The Agency's FSR did not reconcile with its accounting records. Also, the Agency did not have sufficient controls over its financial management system to ensure that all program expenditures were accurately recorded and reported on its FSRs.

The Agency's grant agreement with MDHHS requires that FSRs report total actual program expenditures, regardless of the source of funds. The contract also requires compliance with Title 2 CFR 200. Title 2 CFR 200.302 requires the Agency to have a financial management system that is sufficient to permit the preparation of reports required by the terms and conditions of the Federal award. The financial management system must provide for accurate, current, and complete disclosure of the financial results of the Federal award; and records that identify adequately the source and application of funds. Also, Title 2 CFR 200.303 (a) requires the Agency to 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 conditions of the Federal award.

During our review, we noted the following discrepancies when we attempted to reconcile the FSR expenditure line items to the RWHAP Part B general ledger accounts:

- Salary and Wages is higher on the FSR by \$3,993
- Fringe Benefits is higher on the general ledger by \$2,467
- Travel is higher on the general ledger by \$964
- Supplies and Materials is higher on the general ledger by \$1,510
- Other Expenses is higher on the FSR by \$41,360

The Agency did not have sufficient controls in place to ensure that accounting records reconciled to its FSR. As a result, we noted a \$40,412 overstatement in expenditures reported on the FSR through May 31, 2018. The Agency maintained a separate RWHAP Part B workbook to track the Program's expenses reported on the FSR. This workbook included indirect costs of \$37,535 that were not included in the accounting records, but represent amounts determined by the central accounting office. These costs were not authorized under the terms of the agreement and are further addressed in Finding 2. After considering the indirect costs, a difference of \$2,877 remained that could not be explained.

Adjustments to general ledger amounts are shown on the attached Statement of Grant Program Revenues and Expenditures.

### **Recommendation**

We recommend that the Agency implement sufficient controls and procedures to ensure that the FSR reconciles with its accounting records to ensure compliance with Federal regulations.

## **Finding**

### **2. Improper Reporting of Indirect Costs**

<b>Federal Agency</b>	U.S. Department of Health and Human Services
<b>Federal Sub-Tier</b>	Health Resources and Services Administration (HRSA)
<b>Program Title</b>	HIV Care Formula Grants
<b>CFDA Number</b>	93.917
<b>Project Title</b>	Ryan White HIV/AIDS Program Part B
<b>Amount Due to MDHHS</b>	\$0
<b>Repeat Finding</b>	Not Applicable

The Agency reported indirect costs that had not been authorized under the terms of the agreement as specified in the budget.

The FSR Preparation Instructions, Part IV. E. Expenditure Tab, states, "Enter only the expenditures authorized under the terms of the agreement as specified in the budget attachment... The contractor should assure that no items or unallowable category deviations are reported until approval is requested and received..."

The Grant Agreement, Part I, Section 2. C., 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 the modifications can be implemented. This deviation allowance does not authorize new categories...not shown in the attached Program Budget Summary and supporting detail schedules."

The Agency improperly reported indirect costs of \$37,535 on the Other Expenses line of the FSR. These expenditures were not authorized under the terms of the agreement as specified in the budget. The Other Expenses budgeted line item did not include indirect costs, and Indirect Costs was not an approved category on the approved budget.

An adjustment to remove the indirect costs is included on the attached Statement of Grant Program Revenues and Expenditures.

## **Recommendation**

We recommend that the Agency seek resolution of this matter with the MDHHS Program Office relating to FYE 2018 and FYE 2019, if applicable. We also recommend that the Agency implement sufficient controls and procedures to ensure proper budgeting and reporting of indirect costs.

## **Finding**

### **3. Non-Compliant Allocation of Health Insurance Fringe Benefits**

<b>Federal Agency</b>	U.S. Department of Health and Human Services
<b>Federal Sub-Tier</b>	Health Resources and Services Administration (HRSA)
<b>Program Title</b>	HIV Care Formula Grants
<b>CFDA Number</b>	93.917
<b>Project Title</b>	Ryan White HIV/AIDS Program Part B
<b>Amount Due to MDHHS</b>	\$0
<b>Repeat Finding</b>	Not Applicable

The Agency did not properly allocate its health insurance costs to reflect its RWHAP Part B employees' actual activity.

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."

During our review, we noted that the Agency recorded 100% of its employees' health insurance expenses to the employees' home programs, but this was not consistent with the employees' actual work activities. We noted that four (44%) of nine employees' health insurance expenses were not properly allocated to RWHAP Part B. Our review showed two of the four employees had 100% of their health insurance cost charged to the program, but time records indicated they worked 58% and 84% for RWHAP Part B and the remaining time in other programs. Our review also showed that two of the four employees had no health insurance costs allocated to RWHAP Part B, but the time records indicated they worked 4% and 33% of their time in RWHAP Part B and the remaining time in other programs.

No adjustments are proposed due to immateriality.

## **Recommendation**

We recommend that the Agency implement sufficient controls and procedures to ensure that health insurance benefit distributions are based on records that accurately reflect the work performed to ensure compliance with Federal regulations.



## **Finding**

### **4. Improper Allocation and Insufficient Documentation to Support Expenses**

<b>Federal Agency</b>	U.S. Department of Health and Human Services
<b>Federal Sub-Tier</b>	Health Resources and Services Administration (HRSA)
<b>Program Title</b>	HIV Care Formula Grants
<b>CFDA Number</b>	93.917
<b>Project Title</b>	Ryan White HIV/AIDS Program Part B
<b>Amount Due to MDHHS</b>	\$0
<b>Repeat Finding</b>	Not Applicable

The Agency did not properly allocate and provide sufficient documentation to support the allocation for some expenditures reported on its FSR.

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 200.403 states, “...costs must meet the following general criteria in order to be allowable under Federal awards...(c) Be consistent with policies and procedures that apply uniformly to both federally-financed and other activities of the non-Federal entity...(g) Be adequately documented.”

During our review, we noted that the Agency did not properly calculate and provide sufficient documentation to support its allocation for three (13%) of 24 expenditures totaling \$234. The Agency provided the invoices; however, the amount allocated to the Program was not consistent with the Agency’s allocation methodology. We also noted that the Agency could not provide sufficient documentation to support the amount allocated to the Program and reported on the FSR.

Adjustments correcting the overstatement on the Other Expenses line are shown on the attached Statement of Grant Program Revenues and Expenditures.

## **Recommendation**

We recommend that the Agency implement sufficient controls and procedures to ensure that expenses are allocated consistently and the maintenance of sufficient documentation to support all allocated expenditures reported on its FSR to ensure compliance with Federal regulations.

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

**Objective 2:** To determine the MDHHS share of cost in accordance with MDHHS requirements and the agreement, Federal standards and program standards, and any balance due to or due from the Agency.

**Conclusion:** The MDHHS obligation for the period October 1, 2017, through May 31, 2018 is \$295,967 for RWHAP Part B. The attached Statement of Grant Program Revenues and Expenditures shows the budgeted, reported, and allowable costs. The audit made adjustments which affected RWHAP Part B grant funding; 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.

**Sacred Heart Rehabilitation Center, Inc.**  
**HIV/AIDS - Ryan White Part B**  
**Statement of Grant Program Revenues and Expenditures**  
**10/1/17 - 5/31/18**

	<b>BUDGETED</b>	<b>REPORTED</b>	<b>AUDIT ADJUSTMENT</b>	<b>ALLOWABLE</b>
<b>REVENUES:</b>				
MDHHS Grant	\$536,532	\$336,613 <b>1</b>	(\$40,646) <b>2,3,4</b>	\$295,967
<b>TOTAL REVENUES</b>	\$536,532	\$336,613	(\$40,646)	\$295,967
<b>EXPENDITURES:</b>				
Salary & Wages	\$258,292	\$174,465	(\$3,993) <b>2</b>	\$170,472
Fringe Benefits	\$100,734	\$63,643	\$2,467 <b>2</b>	\$66,110
Travel	\$10,500	\$6,332	\$964 <b>2</b>	\$7,296
Supplies and Materials	\$1,756	\$1,261	\$1,510 <b>2</b>	\$2,771
Other Expenses	\$165,250	\$90,912	(\$41,594) <b>2,3,4</b>	\$49,318
<b>TOTAL EXPENDITURES</b>	\$536,532	\$336,613	(\$40,646)	\$295,967

**1** Actual MDHHS payments.

**2** FSR Not Supported by Accounting Records (Finding 1)

**3** Improper Reporting of Indirect Costs (Finding 2)

**4** Improper Allocation and Insufficient Documentation to Support Expenses (Finding 4)

## Corrective Action Plan

**Finding Number:** 1

**Page Reference:** 2

**Finding:** **FSR Not Supported by Accounting Records**

The Agency's FSR did not reconcile with its accounting records. Also, the Agency did not have sufficient controls over its financial management system to ensure that all program expenditures were accurately recorded and reported on its FSRs.

**Recommendation:** Implement sufficient controls and procedures to ensure that the FSR reconciles with its accounting records to ensure compliance with Federal regulations.

**Comments:** None

**Corrective Action:** Accounting Clerk will make adjusting journal entries monthly so that the FSR can then be reconciled with the general ledger. Once all month end adjusting journal entries are completed, CFO will be notified by Accounting Clerk.

**Person Responsible for Implementation:** Accounting Clerk and CFO

**Anticipated Completion Date:** June 2019

## Corrective Action Plan

**Finding Number:** 2

**Page Reference:** 4

**Finding:** Improper Reporting of Indirect Costs

The Agency reported indirect costs that had not been authorized under the terms of the agreement as specified in the budget.

**Recommendation:** Seek resolution of this matter with the MDHHS Program Office relating to FYE 2018 and FYE 2019, if applicable. Also, implement sufficient controls and procedures to ensure proper budgeting and reporting of indirect costs.

**Comments:** After much discussion with MDHHS Program Office, it was determined that Sacred Heart would begin using the 10% De Minimis indirect cost rate starting with 2019 -2020 fiscal year.

**Corrective Action:** Starting with 2019-2020 fiscal year, Sacred Heart will consistently begin using the 10% De Minimis rate that is applied to the Modified Total Direct Cost for each program.

**Person Responsible  
for Implementation:** Accounting Clerk

**Anticipated  
Completion Date:** October 1, 2019

## Corrective Action Plan

**Finding Number:** 3

**Page Reference:** 5

**Finding:** Non-Compliant Allocation of Health Insurance Fringe Benefits

The Agency did not properly allocate its health insurance costs to reflect its RWHAP Part B employees' actual activity.

**Recommendation:** Implement sufficient controls and procedures to ensure that health insurance benefit distributions are based on records that accurately reflect the work performed to ensure compliance with Federal regulations.

**Comments:** None

**Corrective Action:** Accounting Clerk will make adjusting journal entries monthly so that the FSR can then be reconciled with the general ledger. Once all month end adjusting journal entries are completed, CFO will be notified by Accounting Clerk.

**Person Responsible for Implementation:** Accounting Clerk and CFO

**Anticipated Completion Date:** June 2019

## Corrective Action Plan

**Finding Number:** 4

**Page Reference:** 6

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

The Agency did not properly allocate and provide sufficient documentation to support the allocation for some expenditures reported on its FSR.

**Recommendation:** Implement sufficient controls and procedures to ensure that expenses are allocated consistently and the maintenance of sufficient documentation to support all allocated expenditures reported on its FSR to ensure compliance with Federal regulations.

**Comments:** None

**Corrective Action:** Sacred Heart will use FTEs to determine the allocation rate so that expenses can be properly allocated to the different programs housed at the Saginaw site.

**Person Responsible for Implementation:** Accounting Clerk

**Anticipated Completion Date:** October 1, 2019

## Comment and Recommendation

### 1. No Travel Policy

<b>Federal Agency</b>	U.S. Department of Health and Human Services
<b>Federal Sub-Tier</b>	Health Resources and Services Administration (HRSA)
<b>Program Title</b>	HIV Care Formula Grants
<b>CFDA Number</b>	93.917
<b>Project Title</b>	Ryan White HIV/AIDS Program Part B
<b>Amount Due to MDHHS</b>	\$0
<b>Repeat Finding</b>	Not Applicable

The Agency did not have a written travel policy.

Title 2 CFR 200.474 Travel Costs states that travel costs may be charged provided the costs are in accordance with the “non-Federal entity’s written travel reimbursement policies.”

We recommend that the Agency implement a travel policy to ensure compliance with Federal regulation.

**Management’s Response:** AIDS Care Program Leader and Administrative Assistant will be working together to develop and implement a Travel Policy that will encompass both staff direct transportation as well as client transportation assistance. Direct staff transportation and client demonstrating a need for gas cards will be calculated at .58 cents per mile traveled to program related appointments. Round trip bus passes will also be incorporated for clients who utilize the bus system.

**Person Responsible  
for Implementation:**

Tim Neal – AIDS Care Program Leader  
Tammy Murray – Administrative Assistant

**Anticipated  
Completion Date:**

October 1, 2019