



SHELBY COUNTY HEALTH CARE CORPORATION
(a Component Unit of Shelby County, Tennessee)

Report on Federal Awards in Accordance with OMB Circular A-133

June 30, 2011

SHELBY COUNTY HEALTH CARE CORPORATION
(a Component Unit of Shelby County, Tennessee)

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**Independent Auditors' Report on Internal Control over Financial Reporting
and on Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance With *Government Auditing Standards***

The Board of Directors
Shelby County Health Care Corporation:

We have audited the financial statements of Shelby County Health Care Corporation (d/b/a The Regional Medical Center at Memphis), a component unit of Shelby County, Tennessee (The Med), as of and for the year ended June 30, 2011, and have issued our report thereon dated November 1, 2011. Our report states that the Management's Discussion and Analysis is not a required part of the basic financial statements, but is supplementary information required by U.S. generally accepted accounting principles and that the supplementary information included in Schedules 1, 2, and 3 are presented for purposes of additional analysis and is not a required part of the basic financial statements. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered The Med's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of The Med's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of The Med's internal control over financial reporting.

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.



Compliance and Other Matters

As part of obtaining reasonable assurance about whether The Med's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

* * * * *

We noted certain other matters that we reported to management of The Med in a separate letter dated November 1, 2011.

The Med's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit The Med's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Board of Directors, management, the Department of Audit of the State of Tennessee, the government of Shelby County, Tennessee, and federal awarding agencies, and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

November 1, 2011



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**Independent Auditors' Report on Compliance With Requirements
That Could Have a Direct and Material Effect on
Each Major Program and on Internal Control Over
Compliance in Accordance with OMB Circular A-133**

Board of Directors
Shelby County Health Care Corporation:

Compliance

We have audited Shelby County Health Care Corporation's (d/b/a The Regional Medical Center at Memphis), a component unit of Shelby County, Tennessee, (The Med) compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (*OMB Circular A-133 Compliance Supplement*) that could have a direct and material effect on each of The Med's major federal programs for the year ended June 30, 2011. The Med's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of The Med's management. Our responsibility is to express an opinion on The Med's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about The Med's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of The Med's compliance with those requirements.

In our opinion, The Med complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2011-1 and 2011-2.

Internal Control Over Compliance

Management of The Med is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered The Med's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test



and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of The Med's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the accompanying schedule of findings and questioned costs as items 2011-1 and 2011-2. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Schedule of Expenditures of Federal Awards and Schedule of Expenditures of State of Tennessee Financial Assistance

We have audited the basic financial statements of The Med as of and for the year ended June 30, 2011, and have issued our report thereon dated November 1, 2011. Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. In addition, the accompanying schedule of expenditures of State of Tennessee financial assistance is presented for purposes of additional analysis as required by the State of Tennessee and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

* * * * *

The Med's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit The Med's responses and, accordingly, we express no opinion on the responses.



This report is intended solely for the information and use of the Board of Directors, management, the Department of Audit of the State of Tennessee, the government of Shelby County, Tennessee, and federal awarding agencies, and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

December 6, 2011, except as to the paragraph
relating to the Schedule of Expenditures of
Federal Awards and Schedule of Expenditures
of State of Tennessee Financial Assistance,
as to which the date is November 1, 2011

SHELBY COUNTY HEALTH CARE CORPORATION
(A Component Unit of Shelby County, Tennessee)

Schedule of Expenditures of Federal Awards

Year ended June 30, 2011

<u>Federal sponsor/program title</u>	<u>CFDA</u>	<u>Pass-through award number</u>	<u>Pass-through entity</u>	<u>Direct expenditures</u>	<u>Pass-through expenditures</u>	<u>Total expenditures</u>
U.S. Department of Health and Human Services: Outpatient Early Intervention Services with Respect to HIV: Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	93.918	N/A	N/A	\$ 943,252	—	943,252
Coordinated Services and Access to Research for Women, Infants, Children, and Youth	93.153	N/A	Le Bonheur Community Outreach	—	123,383	123,383
Shelby County Government: HIV Emergency Relief Project Grants*	93.914	N/A	United Way of the MidSouth	—	2,639,145	2,639,145
Bureau of Health Services Administration: National Bioterrorism Hospital Preparedness Program*	93.889	Z-08-200446-00	Tennessee Department of Health	—	5,228	5,228
National Bioterrorism Hospital Preparedness Program*	93.889	G10-30871-00	Tennessee Department of Health	—	467,982	467,982
National Bioterrorism Hospital Preparedness Program*	93.889	GR-11-32557-01	Tennessee Department of Health	—	411,423	411,423
Total federal expenditures				\$ <u>943,252</u>	<u>3,647,161</u>	<u>4,590,413</u>

N/A - not available

* Denotes a major program.

See accompanying independent auditors' report and notes to schedule of expenditures of federal awards and schedule of expenditures of State of Tennessee financial assistance.

SHELBY COUNTY HEALTH CARE CORPORATION
(A Component Unit of Shelby County, Tennessee)
Schedule of Expenditures of State of Tennessee Financial Assistance
Year ended June 30, 2011

<u>Program name</u>	<u>CFDA number</u>	<u>Contract number</u>	<u>Award amount</u>	<u>Deferred revenue July 1, 2010</u>	<u>Cash receipts</u>	<u>Transfers in</u>	<u>Disbursements</u>	<u>Refunds to grantors/ other</u>	<u>Transfers out</u>	<u>Deferred revenue June 30, 2011</u>
Passed through Tennessee Department of Health:										
National Bioterrorism Hospital Preparedness Program	98.889	Z-07-036244-00	\$ 220,800	(475)	—	—	—	—	—	(475)
National Bioterrorism Hospital Preparedness Program	93.889	Z-08-200446-00	696,840	(5,228)	—	—	5,228	—	—	—
National Bioterrorism Hospital Preparedness Program	93.889	G10-30871-00	468,336	(468,336)	—	—	467,982	—	—	(354)
National Bioterrorism Hospital Preparedness Program	93.889	GR-11-32557-01	411,423	—	(411,423)	—	411,423	—	—	—
Total passed through Tennessee Department of Health			<u>\$ 1,797,399</u>	<u>(474,039)</u>	<u>(411,423)</u>	<u>—</u>	<u>884,633</u>	<u>—</u>	<u>—</u>	<u>(829)</u>

See accompanying independent auditors' report and notes to schedule of expenditures of federal awards and schedule of expenditures of State of Tennessee financial assistance.

SHELBY COUNTY HEALTH CARE CORPORATION

(a Component Unit of Shelby County, Tennessee)

Notes to Schedule of Expenditures of Federal Awards and
Schedule of Expenditures of State of Tennessee Financial Assistance

Year ended June 30, 2011

(1) Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards summarizes the expenditures of Shelby County Health Care Corporation (d/b/a The Regional Medical Center at Memphis) (The Med) under programs of the federal government for the year ended June 30, 2011. The accompanying Schedule of Expenditures of State of Tennessee Financial Assistance summarizes the expenditures of The Med under programs of the state government that require an audit in accordance with the Office of Management and Budget Circular A-133 (collectively with the Schedule of Expenditures of Federal Awards, the Schedules). The amounts reported as federal and state expenditures were obtained from The Med's general ledger. Because the Schedules present only a selected portion of the operations of The Med, they are not intended to and do not present the financial position, results of operations, changes in net assets and cash flows of The Med.

For purposes of the Schedules, federal awards include all grants, contracts, and similar agreements entered into directly between The Med, the agencies, and departments of the federal government and all subawards to The Med by nonfederal organizations pursuant to federal grants, contracts, and similar agreements. The information in the Schedules is presented in accordance with the provisions of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

(2) Summary of Significant Accounting Policies

For the purposes of the Schedules, expenditures of federal and state award programs are recognized on the accrual basis of accounting.

SHELBY COUNTY HEALTH CARE CORPORATION

(a Component Unit of Shelby County, Tennessee)

Notes to Schedule of Expenditures of Federal Awards and
Schedule of Expenditures of State of Tennessee Financial Assistance

Year ended June 30, 2011

(3) Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:	Unqualified		
Internal control over financial reporting:			
Material weakness(es) identified?	_____ yes	x	no
Significant deficiency(ies) identified not considered to be material weaknesses?	_____ yes	x	none reported
Noncompliance material to financial statement noted?	_____ yes	x	no

Federal Awards

Internal control over major programs:			
Material weakness(es) identified?	_____ yes	x	no
Significant deficiency(ies) identified not considered to be material weaknesses?	x _____ yes		none reported
Type of auditors' report issued on compliance for major programs:	Unqualified		
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?	x _____ yes		no

Identification of major programs:

<u>CFDA Numbers</u>	<u>Name of federal program or cluster</u>
93.914	HIV Emergency Relief Project Grants
93.889	National Bioterrorism Hospital Preparedness Program

Dollar threshold used to distinguish between Type A and Type B programs:	\$ <u>300,000</u>
Auditee qualified as low-risk auditee?	_____ yes x _____ no

SHELBY COUNTY HEALTH CARE CORPORATION

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Schedule of Findings and Questioned Costs

Year ended June 30, 2011

(1) Findings Related to the Financial Statements Reported in Accordance with *Government Accounting Standards*

There are no findings and questioned costs related to the financial statements reported in accordance with *Government Auditing Standards* for the year ended June 30, 2011.

(2) Findings and Questioned Costs Relating to Federal Awards

Finding No. 2011-1 – Period of Availability

Federal Agency: U.S. Department of Health and Human Services

Program: National Bioterrorism Hospital Preparedness Program – CFDA number 93.889

Pass-through Award Number: Z-08-200446-00
G10-30871-00

Award Year: September 1, 2007 to August 31, 2009
August 9, 2009 to June 30, 2010

Criteria

OMB Circular A-110 requires that funds be used within the allowable period of availability.

Condition

The Med expended funds outside the period of availability for grant numbers Z-08-200446-00 and G10-30871-00.

Questioned Costs

There were 6 of the 40 expenditures tested, totaling \$156,627, which were spent outside the period of availability.

Cause

There are no procedures in place to ensure funds are spent in the appropriate period of availability.

Effect

The Med spent monies from a grant cycle which had expired, thereby expending the funds outside the period of availability.

Recommendation

The Med should establish policies and procedures to ensure proper oversight of expenditures in order to prevent monies from being spent outside the period of availability.

Management Response

The Med will reassign responsibility to the Finance Department to maintain accounting records for each open grant cycle and ensure that all funds are expended within the period of availability.

SHELBY COUNTY HEALTH CARE CORPORATION

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Schedule of Findings and Questioned Costs

Year ended June 30, 2011

Finding No. 2011-2 – Reporting

Federal Agency: U.S. Department of Health and Human Services

Program: National Bioterrorism Hospital Preparedness Program – CFDA number 93.889

Pass-through Award Number: GR-11-32557-01
G10-30871-00

Award Year: July 1, 2010 to June 30, 2011
August 9, 2009 to June 30, 2010

Criteria

OMB Circular A-110 requires that reports be submitted timely as outlined by the grant agreement.

Condition

The Med did not timely file the year-end reports with the State of Tennessee for grants G10-30871-00 and GR-11-32557-01.

Questioned Costs

None.

Cause

Reports were not timely completed and filed with the State of Tennessee as outlined by the grant agreement.

Effect

The Med untimely filed the year-end reports related to contracts G10-30871-00 and GR-11-32557-01.

Recommendation

The Med should establish policies and procedures to ensure proper oversight of the process of reporting to the State of Tennessee to ensure timely remittance of the reports as outlined by the grant agreement.

Management Response

The Med will reassign responsibility to the Finance Department for timely reporting of grant expenditures to the State of Tennessee.