



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

OMB Circular A-133 Reports

June 30, 2013

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

Table of Contents

	Page
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 <i>Government Auditing Standards</i>	1
Independent Auditors' Report on Compliance for Each Major Program; Report on Internal Control over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133, <i>Audits of States, Local Governments, and Non-Profit Organizations</i> and Schedule of Expenditures of State of Tennessee Financial Assistance	3
Schedule of Expenditures of Federal Awards	6
Schedule of Expenditures of State of Tennessee Financial Assistance	7
Notes to Schedule of Expenditures of Federal Awards and Schedule of Expenditures of State of Tennessee Financial Assistance	8
Schedule of Findings and Questioned Costs	9



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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, in accordance with the 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, the consolidated 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), which comprise the statement of net position as of June 30, 2013, and the related statements of revenues, expenses, and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 18, 2013.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered The Med's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of The Med's internal control. Accordingly, we do not express an opinion on the effectiveness of The Med's internal control.

A deficiency in internal control 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, 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. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether The Med's financial statements are free from 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of The Med's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering The Med's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

Memphis, Tennessee
October 18, 2013



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50 North Front Street
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Independent Auditors' Report on Compliance for Each Major Program; Report on Internal Control over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and Schedule of Expenditures of State of Tennessee Financial Assistance

The Board of Directors
Shelby County Health Care Corporation:

Report on Compliance for Each Major Federal Program

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 *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, 2013. 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.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of The Med's major federal programs based on our audit of the types of compliance requirements referred to above. 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 on compliance for each major federal program. However, our audit does not provide a legal determination of The Med's compliance.

Opinion on Each Major Federal Program

In our opinion, The Med complied, in all material respects, with the types of 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, 2013.



Report on Internal Control over Compliance

Management of The Med is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered The Med's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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. 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.

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 material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified a deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2013-1 that we consider to be a significant deficiency.

The Med's response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The Med's response was not subjected to the auditing procedures applied in the audit of compliance, and accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133 and Schedule of Expenditures of State of Tennessee Financial Assistance

We have audited the financial statements of The Med as of and for the year ended June 30, 2013, and have issued our report thereon dated October 18, 2013, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements 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 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 financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedules of expenditure of federal awards and expenditures of State of Tennessee financial assistance are fairly stated in all material respects in relation to the financial statements as a whole.

KPMG LLP

Memphis, Tennessee
October 18, 2013

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

Schedule of Expenditures of Federal Awards

Year ended June 30, 2013

<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	\$ 987,758	—	987,758
Coordinated Services and Access to Research for Women, Infants, Children, and Youth*	93.153	N/A	Le Bonheur Community Health and Well-Being	—	316,004	316,004
HIV Emergency Relief Project Grants	93.914	N/A	Shelby County Government	—	2,307,157	2,307,157
National Bioterrorism Hospital Preparedness Program	93.889	GR – 1339211	Tennessee Department of Health Bureau of Health Services Administration	—	176,000	176,000
Total federal expenditures				\$ <u>987,758</u>	<u>2,799,161</u>	<u>3,786,919</u>

N/A - not applicable

* 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, 2013

Program name	CFDA number	Contract number	Award amount	Deferred revenue July 1, 2012	Cash receipts	Transfers in	Disbursements	Refunds to grantors/ other	Transfers out	Deferred revenue June 30, 2013
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	G10-30871-00	468,336	(354)	—	—	—	—	—	(354)
National Bioterrorism Hospital Preparedness Program	93.889	GR-1339211	176,000	—	(176,000)	—	176,000	—	—	—
Total passed through Tennessee Department of Health			\$ 865,136	(829)	(176,000)	—	176,000	—	—	(829)

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, 2013

(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, 2013. The accompanying Schedule of Expenditures of State of Tennessee Financial Assistance (collectively with the Schedule of Expenditures of Federal Awards, the Schedules) summarizes the expenditures of The Med under programs of the state government. 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 position, 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 and 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)

Schedule of Findings and Questioned Costs

Year ended June 30, 2013

(1) Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:	Unmodified		
Internal control over financial reporting:			
Material weakness(es) identified?	_____ yes	_____ <input checked="" type="checkbox"/> no	
Significant deficiency(ies) identified not considered to be material weaknesses?	_____ yes	_____ <input checked="" type="checkbox"/> none reported	
Noncompliance material to financial statement noted?	_____ yes	_____ <input checked="" type="checkbox"/> no	

Federal Awards

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

Identification of major programs:

<u>CFDA Numbers</u>	<u>Name of federal program or cluster</u>
93.918	Outpatient Early Intervention Services with Respect to HIV: Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease.
93.153	Coordinated Services and Access to Research for Women, Infants, Children and Youth.

Dollar threshold used to distinguish between Type A and Type B programs: \$ 300,000

Auditee qualified as low-risk auditee? _____ yes _____ no

SHELBY COUNTY HEALTH CARE CORPORATION

(a Component Unit of Shelby County, Tennessee)

Schedule of Findings and Questioned Costs

Year ended June 30, 2013

(2) 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, 2013.

(3) Findings and Questioned Costs Relating to Federal Awards

Finding No. 2013-1 – Suspension and Debarment

Federal Program: Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease, CFDA No. 93.918, Award No. H76HA00568-13-02 and Award No. H76HA00568-12-03

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

Pass-through Entity: None

Award Years: January 1, 2012 through December 31, 2012 and January 1, 2013 through December 31, 2013

Criteria

CFR section 215.13 requires that all federal awarding agencies and recipients comply with federal suspension and debarment regulations. These regulations state that certain parties who are debarred, suspended, or otherwise excluded may not be participants or be principals in Federal assistance awards and subawards, and in certain contracts under those awards and subawards.

Condition

There were two “covered” vendors associated with this grant that were not properly checked for suspension and debarment through The Med’s RepTrax suspension and debarment verification process.

Questioned Costs

None

Cause and Effect

The listing of vendors that is subjected to the monthly RepTrax suspension and debarment verification process is not complete, and therefore, vendors associated with the above grant were not properly monitored for suspension or debarment.

Questioned Costs

None

SHELBY COUNTY HEALTH CARE CORPORATION

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Schedule of Findings and Questioned Costs

Year ended June 30, 2013

Recommendation

The Med should ensure their listing of all active vendors within the procurement department is complete and that each of these vendors is being subjected to the monthly suspension and debarment verification through the RepTrax system.

Management Response

Management concurs with the auditors findings. Management is in the process of updating its procedures to ensure that all vendors are included in the monthly suspension and debarment verification system.