



June 30, 2010

TO: Mary Wakefield, Ph.D., R.N.
Administrator
Health Resources and Services Administration

FROM: /Lori S. Pilcher/
Assistant Inspector General for Grants, Internal Activities,
and Information Technology Audits

SUBJECT: Results of Limited Scope Review at Tri-Town Economic Opportunity Committee
(A-01-10-01500)

The attached final report provides the results of our review of Tri-Town Economic Opportunity Committee.

Section 8L of the Inspector General Act, 5 U.S.C. App., requires that the Office of Inspector General (OIG) post its publicly available reports on the OIG Web site. Accordingly, this report will be posted at <http://oig.hhs.gov>.

Please send us your final management decision, including any action plan, as appropriate, within 60 days. If you have any questions or comments about this report, please do not hesitate to contact me at (202) 619-1175 or through email at Lori.Pilcher@oig.hhs.gov. Please refer to report number A-01-10-01500 in all correspondence.

Attachment

cc:
Patricia Reese
Director, HRSA
Office of Federal Assistance Management/Division of Financial Integrity

Department of Health & Human Services

**OFFICE OF
INSPECTOR GENERAL**

**RESULTS OF LIMITED SCOPE
REVIEW AT TRI-TOWN
ECONOMIC OPPORTUNITY
COMMITTEE**



Daniel R. Levinson
Inspector General

June 2010
A-01-10-01500

Office of Inspector General

<http://oig.hhs.gov>

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Section 8L of the Inspector General Act, 5 U.S.C. App., requires that OIG post its publicly available reports on the OIG Web site.

OFFICE OF AUDIT SERVICES FINDINGS AND OPINIONS

The designation of financial or management practices as questionable, a recommendation for the disallowance of costs incurred or claimed, and any other conclusions and recommendations in this report represent the findings and opinions of OAS. Authorized officials of the HHS operating divisions will make final determination on these matters.

EXECUTIVE SUMMARY

BACKGROUND

The Health Centers Consolidation Act of 1996 (P.L. No. 104–299) consolidated the Health Center Program under Section 330 of the Public Health Service Act (PHS Act), codified at 42 U.S.C. § 254(b). Pursuant to 42 U.S.C. § 254(b), the Health Center Program is a national program designed to provide comprehensive primary health care services to medically underserved populations through planning and operating grants to health centers. Within the U.S. Department of Health & Human Services, the Health Resources and Services Administration (HRSA) administers the Health Center Program.

Under the American Recovery and Reinvestment Act of 2009, P.L. No. 111-5 (Recovery Act), enacted February 17, 2009, HRSA received \$2.5 billion, including \$2 billion to expand the Health Center Program to serve more patients, stimulate new jobs, and meet the significant increase in demand for primary health care services among the Nation’s uninsured and underserved populations.

Tri-Town Economic Opportunity Committee (Tri-Town) is a non-profit, private corporation that has provided a broad range of health and social services to low- and moderate-income populations since 1965. Tri-Town became a Federally Qualified Health Center when it began receiving HRSA funding in March 2009. Tri-Town serves the communities of North Providence, Johnston, Smithfield, North Smithfield, Glocester, and Burrillville, Rhode Island.

Tri-Town is funded primarily through Medicaid, Medicare, Federal and State grants, and third-party and private reimbursements. During Federal fiscal year 2009, HRSA awarded Tri-Town three separate 2-year Recovery Act grants totaling \$1,650,000.

OBJECTIVES

Our objective was to assess Tri-Town’s financial viability, capacity to manage and account for Federal funds, and capability of operating a community health center program in accordance with Federal regulations.

SUMMARY OF FINDINGS

Based on our assessment, Tri-Town is currently financially viable. We found that Tri-Town’s financial management system was able to adequately manage and account for Federal funds with two exceptions. Specifically, Tri-Town did not always (1) ensure that inventory records were reconciled and accurate and (2) obtain competitive bids before awarding contracts. We also found that Tri-Town has the capability to operate a community health center in accordance with Federal regulations.

RECOMMENDATION

We recommend that HRSA consider the information presented in this report in assessing Tri-Town's capability as a recipient of HRSA funds.

TRI-TOWN'S COMMENTS

In written comments on our draft report, Tri-Town stated they are in the process of implementing a new physical inventory system that will assure a timely and reconciled inventory of equipment and fixed assets. Tri-Town agreed they did not obtain a third bid, however believe that they had performed due diligence in the selection of the advertising contract. Tri-Town's comments are included as the Appendix.

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INTRODUCTION

BACKGROUND

Health Center Program

The Health Centers Consolidation Act of 1996 (P.L. No. 104–299) consolidated the Health Center Program under Section 330 of the Public Health Service Act (PHS Act), codified at 42 U.S.C. § 254(b). Pursuant to 42 U.S.C. § 254(b), the Health Center Program is a national program designed to provide comprehensive primary health care services to medically underserved populations through planning and operating grants to health centers. Within the U.S. Department of Health & Human Services, the Health Resources and Services Administration (HRSA) administers the Health Center Program.

The Health Center Program provides grants to nonprofit private or public entities that serve designated medically underserved populations, including migrant and seasonal farm workers, the homeless, and residents of public housing. Health centers funded by HRSA are community-based, patient-directed organizations that meet the definition of “health center” under 42 U.S.C. § 254(b).

Recovery Act Funds

Under the American Recovery and Reinvestment Act of 2009, P.L. No. 111-5 (Recovery Act), enacted February 17, 2009, HRSA received \$2.5 billion, including \$2 billion to expand the Health Center Program to serve more patients, stimulate new jobs, and meet the significant increase in demand for primary health care services among the Nation’s uninsured and underserved populations. HRSA made four types of grants available to health centers to provide for new access points, increased demand for services, facilities investment programs, and capital improvement programs. Grants were provided to new and existing health centers, and a center could receive more than one type of grant.

Requirements for Federal Grantees

Pursuant to 45 CFR § 74.21, grantees are required to maintain financial management systems that contain written procedures for determining the reasonableness, allocability, and allowability of costs. Grantees must maintain accounting records that are supported by source documentation and must maintain financial systems that provide for accurate and complete reporting of grant-related financial data. Grantees are also required to compare outlays with budget amounts for each award and may use grant funds only for authorized purposes. In addition, Federal regulations specify the size, composition, and responsibilities of a Grantee’s board of directors.

The Recovery Act and Office of Management and Budget (OMB) guidance M-09-15 set forth further requirements for transparency and accountability.

Tri-Town Economic Opportunity Committee, Inc.

Tri-Town Economic Opportunity Committee (Tri-Town) is a non-profit, private corporation that has provided a broad range of health and social services to low- and moderate-income populations since 1965. Tri-Town became a Federally Qualified Health Center when it began receiving HRSA funding in March 2009. Tri-Town serves the communities of North Providence, Johnston, Smithfield, North Smithfield, Glocester, and Burrillville, Rhode Island.

Tri-Town is funded primarily through Medicaid, Medicare, Federal and State grants, and third-party and private reimbursements. During Federal fiscal year (FY) 2009, HRSA awarded Tri-Town three separate 2-year Recovery Act grants totaling \$1,650,000. The awards include \$1,300,000 for new access points, \$100,000 for increased demand for services, and \$250,000 for capital improvement programs.

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

Our objective was to assess Tri-Town's financial viability, capacity to manage and account for Federal funds, and capability of operating a community health center program in accordance with Federal regulations.

Scope

We reviewed Tri-Town's financial statements for FYs 2006 through 2009 and its accounting and personnel policies and procedures for FY 2009. This limited-scope review is part of a series of reviews planned by the Office of Inspector General to provide oversight of funds provided by the Recovery Act. Therefore, we did not perform an overall assessment of Tri-Town's internal control structure.

We performed our fieldwork at Tri-Town's administrative office in Johnston, Rhode Island, during February 2010.

Methodology

To accomplish our objectives, we;

- reviewed relevant Federal laws, regulations, and guidance;
- reviewed Tri-Town's HRSA grant application packages and supporting documentation;
- reviewed Tri-Town's fiscal policies and procedures related to accounting documentation and preparation of financial reports;
- reviewed Tri-Town's administrative procedures related to personnel, record-keeping, conflict resolution, and nonfinancial matters;

- reviewed Tri-Town’s procedures in place to address the Recovery Act reporting requirements;
- performed liquidity and stability analyses of Tri-Town’s finances for FYs 2006 through 2009 to determine whether Tri-Town was financially viable;
- reviewed Tri-Town’s audited financial statements and audits conducted pursuant to OMB Circular A-133 for FYs 2006 through 2009;
- interviewed Tri-Town’s personnel to gain an understanding of Tri-Town’s operations;
- reviewed minutes from Tri-Town’s Board of Directors’ meetings; and
- discussed findings with Tri-Town’s officials.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

FINDINGS AND RECOMMENDATION

Based on our assessment, Tri-Town is currently financially viable. We found that Tri-Town’s financial management system was able to adequately manage and account for Federal funds with two exceptions. Specifically, Tri-Town did not always (1) ensure that inventory records were reconciled and accurate and (2) obtain competitive bids before awarding contracts. We also found that Tri-Town has the capability to operate a community health center in accordance with Federal regulations.

FINANCIAL VIABILITY

Federal Regulations

Pursuant to 45 CFR § 74.14, grantees should be financially viable. Specifically, this regulation states that the awarding agency may impose additional requirements as needed if an applicant or recipient has a history of poor performance or is not financially stable.

Tri-Town’s Financial Viability

We determined that Tri-Town is financially viable by analyzing its short-term liquidity, defined by the ratio of its assets to its liabilities, and its long-term stability, defined by its reliance on debt for asset formation.

Short-Term Liquidity

Tri-Town has maintained strong short-term liquidity since 2006. Specifically:

- Tri-Town's current assets-to-liabilities ratio (current assets divided by current liabilities) ranged from 1.10 to 1.83 during FYs 2006 through 2009. Generally, for an organization to be considered fiscally sound, its current assets should be valued higher than its current liabilities.
- Tri-Town's working capital (current assets minus current liabilities) increased from \$110,770 in FY 2006 to \$735,055 in FY 2009. Positive working capital is a common measure of an organization's liquidity, efficiency, and overall health.

Long-Term Stability

Tri-Town's total debt (liabilities) for FY 2009 was \$2,390,464 and its total assets were \$4,910,719. Thus, approximately 49 percent of Tri-Town's assets were financed through debt, indicating that the grantee has long-term stability. In general, the lower an organization's reliance on debt for assets formation, the greater the organization's long-term stability because excessive debt can lead to a heavy interest and principal repayment burden.

FINANCIAL MANAGEMENT SYSTEM

Federal Regulations

Pursuant to 45 CFR 74.34(f)(3), grantees shall take a physical inventory of equipment and reconcile the results with the equipment records at least once every 2 years. Any differences between quantities determined by the physical inspection and those shown in the accounting records shall be investigated to determine the causes of the difference. Furthermore, 45 CFR 74.34(f)(4) states that grantees shall have a control system to ensure adequate safeguards to prevent loss, damage, or theft of the equipment.

Pursuant to 45 CFR 74.43, grantees shall conduct all procurement transactions in a manner to provide, to the maximum extent practical, open and free competition. Furthermore, 45 CFR 74.44(a) states that all recipients shall establish written procurement procedures.

Tri-Town's Financial Management System

Tri-Town's financial management system was able to adequately manage and account for Federal funds with the following two exceptions:

Inventory Records Not Reconciled and Accurate

Tri-Town's procedures state that it will perform a physical inventory every 2 years by recording all equipment valued at more than \$500 to its inventory log. Although Tri-Town performed a physical inventory less than 2 years ago, in 2008, it did not document all equipment valued at

more than \$500 to its inventory log. Specifically, Tri-Town's inventory log only included computers. It did not include such items as examination tables and other medical equipment that were worth more than \$500. In addition, Tri-Town could not provide us with evidence that it had reconciled its physical inventory to its equipment records, as Federal regulations require.

Competitive Bids Not Always Obtained

To comply with the Federal requirement that all of its procurement transactions allow for open and free competition, Tri-Town's written policies and procedures for procuring supplies and services require that solicitations greater than \$25,000 have three written bids. Although Tri-Town obtained the required number of bids for two of the three contracts that we reviewed, it could not provide us evidence that it had obtained three written bids when it entered into a \$36,000 contract with an advertising agency.

CAPACITY TO OPERATE A COMMUNITY HEALTH CENTER

Federal Regulations

Pursuant to 42 CFR § 51c.304, a grantee's governing board shall consist of at least 9 but not more than 25 members, and the majority of the board shall be individuals who are or will be served by the center. The governing board holds monthly meetings to oversee the operations of the center through activities such as approving grant applications and budgets, evaluating the health center's activities, and establishing general policies and procedures.

Tri-Town's Capacity to Operate a Community Health Center

Generally, we found Tri-Town to be in compliance with Federal regulations for operating a community health center. Tri-Town had 11 members on its board of directors, and the majority of the members (seven) received or will receive services from the health center. Based on the board of directors' minutes, the board met on a monthly basis and participated in approving grant applications and budgets, evaluating the health center's service utilization patterns and productivity, and approving its policies and procedures.

RECOMMENDATION

We recommend that HRSA consider the information presented in this report in assessing Tri-Town's capability as a recipient of HRSA funds.

TRI-TOWN'S COMMENTS

In written comments on our draft report, Tri-Town stated they are in the process of implementing a new physical inventory system that will assure a timely and reconciled inventory of equipment and fixed assets. Tri-Town agreed they did not obtain a third bid, however believe that they had performed due diligence in the selection of the advertising contract. Tri-Town's comments are included as the Appendix.

APPENDIX



Joseph R. DeSantis
Chief Executive Officer

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May 5, 2010

Reference Report Number: A-01-10-01500

Gregory Daigle
U.S. Department of Health and Human Services
Office of Inspector General
Room 2425
John F. Kennedy Federal Building
Boston, MA 02203

Dear Mr. Daigle:

The following represents Tri-Town Economic Opportunity Committee's ("Tri-Town") responses to the findings noted in the OIG Draft Report dated April 29, 2010.

- *Fixed Asset Inventory Finding:*
 - Tri-Town is in the process of implementing a new physical inventory system that will ensure a timely and reconciled inventory of the Agency's equipment and fixed assets. The new system will integrate asset tracking best practices including bar coding and scanning systems. The software will also be fully integrated into the accounting system general ledger for automated reconciliation on a real time basis. As part of the implementation, staff will receive extensive training on the inventory management system. We expect to have the new system fully functional in the Summer of 2010.

- *Procurement Finding:*
 - Tri-Town has extensive policies and procedures addressing procurement and is diligent in obtaining the required number of bids for all applicable expenditures. For example, our recent Health Center Renovation Project had 17 individual construction line items that we solicited 3 bids for each item accounting for nearly \$700,000 in contracts. For the contract in question, Tri-Town did perform alternative due diligence measures in assuring that the procured services and associated costs were fair, reasonable and comparable. Tri-Town had obtained a second bid for similar services, which in turn was actually higher than the contractor we finally selected, however as noted in the report we were not able to obtain a third bid. Through inquiry and review of other local non-profit agencies with related contracts, Tri-Town noted that the \$36,000 advertising contract was reasonable based on the level of services being provided by the contractor. In addition, the contractor had extensive experience working in the non-profit industry and had performed ad-hoc work for Tri-Town in the past that was of superior quality.

If you have any follow up questions or comments, please do not hesitate to contact me. Thank you for your assistance.

Regards,



Leonard Mello, CPA
Chief Financial Officer