HRSA Had An Effective Process To Identify And Monitor High-Risk Health Centers That Received COVID-19 Grant Funds

Inquiries about this report may be addressed to the Office of Public Affairs at Public.Affairs@oig.hhs.gov.

Amy J. Frontz
Deputy Inspector General for Audit Services

September 2023
A-01-21-01503
The mission of the Office of Inspector General (OIG) is to provide objective oversight to promote the economy, efficiency, effectiveness, and integrity of the Department of Health and Human Services (HHS) programs, as well as the health and welfare of the people they serve. Established by Public Law No. 95-452, as amended, OIG carries out its mission through audits, investigations, and evaluations conducted by the following operating components:

**Office of Audit Services.** OAS provides auditing services for HHS, either by conducting audits with its own audit resources or by overseeing audit work done by others. The audits examine the performance of HHS programs, funding recipients, and contractors in carrying out their respective responsibilities and provide independent assessments of HHS programs and operations to reduce waste, abuse, and mismanagement.

**Office of Evaluation and Inspections.** OEI’s national evaluations provide HHS, Congress, and the public with timely, useful, and reliable information on significant issues. To promote impact, OEI reports also provide practical recommendations for improving program operations.

**Office of Investigations.** OI’s criminal, civil, and administrative investigations of fraud and misconduct related to HHS programs and operations often lead to criminal convictions, administrative sanctions, and civil monetary penalties. OI’s nationwide network of investigators collaborates with the Department of Justice and other Federal, State, and local law enforcement authorities. OI works with public health entities to minimize adverse patient impacts following enforcement operations. OI also provides security and protection for the Secretary and other senior HHS officials.

**Office of Counsel to the Inspector General.** OCIG provides legal advice to OIG on HHS programs and OIG’s internal operations. The law office also imposes exclusions and civil monetary penalties, monitors Corporate Integrity Agreements, and represents HHS’s interests in False Claims Act cases. In addition, OCIG publishes advisory opinions, compliance program guidance documents, fraud alerts, and other resources regarding compliance considerations, the anti-kickback statute, and other OIG enforcement authorities.
Notices

THIS REPORT IS AVAILABLE TO THE PUBLIC
at https://oig.hhs.gov

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

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.
Why OIG Did This Audit
In the spring of 2020, the Health Resources and Services Administration (HRSA) awarded nearly $2 billion to 1,387 health centers through 3 programs in response to COVID-19. To expedite distribution of this funding, HRSA modified its processes for awarding these grants and for monitoring high-risk recipients that received grants.

Our objective was to determine whether HRSA had an effective process to identify and monitor high-risk health centers that received COVID-19 grant funds.

How OIG Did This Audit
Our audit covered HRSA’s process for awarding nearly $2 billion in COVID-19 funds to 1,387 health centers and its process for identifying and monitoring high-risk recipients that received grants. We obtained and reviewed the COVID-19 grant budgets, program plans, risk justification, and grant award documents for 37 high-risk health centers. We reviewed whether HRSA had included additional reporting requirements to the notices of awards to increase monitoring for the 37 high-risk health centers. We did not assess how HRSA used the information it received from the additional reporting requirements to further monitor the high-risk health centers. We reviewed financial assessments, Single Audit reports, and Internal Revenue Service Form 990 tax returns for a sample of 33 moderate and minimal-risk health centers.

HRSA Had An Effective Process To Identify And Monitor High-Risk Health Centers That Received COVID-19 Grant Funds

What OIG Found
HRSA had effective processes to identify and monitor the health centers that received COVID-19 grant funds. Specifically, we found that for the 37 health centers HRSA identified as high risk, HRSA appropriately performed financial assessments, assigned the correct risk level based on our independent assessment, and added quarterly expenditure report requirements to the applicable grant awards in accordance with its processes. Additionally, we found that for our sample of 33 moderate or minimal risk health centers that we reviewed, HRSA appropriately assessed the risk level as less than high risk based on the financial information it reviewed.

What OIG Recommends
HRSA had an effective process to identify and monitor high-risk health centers that received COVID-19 grant funds, and as such we do not have a recommendation. During our fieldwork, HRSA provided us with its Risk-Based Recipient Monitoring Framework, dated April 13, 2021, which became effective after the COVID-19 funds were awarded and establishes lower requirements for assigning high risk to a recipient and lowered the following five financial risk indicators from high to moderate risk. The lowering of these financial risk indicators may decrease oversight and puts Federal funds at risk. We discuss this further in the “Other Matters” section of this report.

HRSA elected not to provide formal comments; however, it provided technical comments, which we addressed as appropriate.
# TABLE OF CONTENTS

INTRODUCTION ...................................................................................................................... 1

Why We Did This Audit ........................................................................................................ 1

Objective .................................................................................................................................. 1

Background ............................................................................................................................ 1

Health Resources Services Administration ....................................................................... 1
COVID-19 Supplemental Grant Funding .............................................................................. 4
COVID-19 Grant Award Process ......................................................................................... 5

How We Conducted This Audit ......................................................................................... 6

FINDINGS .................................................................................................................................. 6

HRSA Effectively Identified and Monitored High-Risk Health Centers ......................... 7
HRSA Appropriately Assessed High-Risk COVID-19 Recipients .................................... 7
HRSA Appropriately Included Additional Reporting Requirements To Monitor High-Risk COVID-19 Recipients ......................................................................................... 7
HRSA Appropriately Assessed Lower-Risk COVID-19 Recipients .................................. 8

OTHER MATTERS .................................................................................................................. 8

APPENDIX: AUDIT SCOPE AND METHODOLOGY .............................................................. 11
INTRODUCTION

WHY WE DID THIS AUDIT

In fiscal year 2020, the Health Resources and Services Administration (HRSA) awarded nearly $2 billion to 1,387 health centers nationwide through three COVID-19 appropriation bills in response to the COVID-19 pandemic. To expedite distribution of this funding, HRSA modified its processes for awarding these grant funds and for monitoring high-risk recipients that received grants. HRSA stated that it did this in consideration of the administrative, financial management, and audit requirements within the Office of Management and Budget’s Administrative Relief for Recipients and Applicants of Federal Financial Assistance Directly Impacted by the Novel Coronavirus (M-20-11). Specifically, HRSA did not require health centers to apply for grants and instead made these funds immediately available to the health centers. The health centers had 30 days from the award release date to submit information that is usually submitted and reviewed during the grant application process prior to a recipient receiving funding. In addition, HRSA eliminated its requirement that high-risk recipients submit expense documentation prior to drawing down grant funds.

COVID-19 created extraordinary challenges for the delivery of health care and human services to the American people. As the oversight agency for the Department of Health and Human Services (HHS), the Office of Inspector General (OIG) oversees HHS’s COVID-19 response and recovery efforts. This audit is part of the OIG’s COVID-19 response strategic plan.1, 2

OBJECTIVE

Our objective was to determine whether HRSA had an effective process to identify and monitor high-risk health centers that received COVID-19 grant funds.

BACKGROUND

Health Resources and Services Administration

HRSA is the primary Federal agency for improving health care to people who are geographically isolated and economically or medically vulnerable. HRSA programs help those in need of high-quality primary health care, support the training of health professionals, and promote the distribution of medical providers to underserved areas. HRSA funds nearly 1,400 health centers that deliver care to the most vulnerable individuals and families, including people experiencing homelessness, agricultural workers, residents of public housing, and veterans. These health

---

1 OIG’s COVID-19 response strategic plan and oversight activities.

2 Seventeen of Thirty Selected Health Centers Did Not Use or May Not Have Used Their HRSA COVID-19 Supplemental Grant Funding in Accordance With Federal Requirements (A-02-21-02005).
centers provide affordable, accessible, and high-quality primary health care to over 30 million people a year, regardless of their ability to pay.

During a competitive grant award process, HRSA posts a Notice of Funding Opportunity (NOFO) on Grants.gov that provides information to prospective applicants about the program, HHS and HRSA Federal award requirements, the application process, post-award reporting requirements, and expectations of successful applicants.

Eligible applicants submit a grant application package electronically that includes among other things:

- a budget and budget narrative that explains the amounts requested and describes how each item will support the achievement of proposed objectives, and
- a project narrative that provides a comprehensive description of all aspects of the proposed project.

This information is usually submitted to, reviewed, and approved by HRSA before funds are awarded to a grant recipient. HRSA staff review applications for eligibility, responsiveness, completeness, and conformity with the requirements outlined in the NOFO. Applications that pass the initial HRSA completeness and eligibility screening are then assessed for the quality of a proposed project and the likelihood of its success.

Within HRSA, the Division of Financial Integrity (DFI) is responsible for preaward financial risk assessments of potential HRSA recipients and the financial oversight and monitoring of HRSA recipients. As part of HRSA’s risk management approach to grant oversight, DFI staff perform a financial assessment during the grant application evaluation process to identify and assess financial risks that could adversely affect program performance. The financial assessment determines the level of financial risk of a potential recipient by evaluating its financial management capability based on information from several sources. The financial assessment of a potential recipient includes a review of the following sources:

- Single Audit reports,\(^3\)

---

\(^3\) Non-Federal entities spending $750,000 or more during their FY in Federal awards are generally required to have a Single Audit conducted in accordance with 45 CFR § 75.514 (45 CFR § 75.501). Single Audits must be conducted in accordance with generally accepted government auditing standards and include an examination of the entity’s financial records and financial statements, testing of the entity’s internal controls, and a review of the entity’s compliance with requirements related to expenditures of selected Federal awards. The final audit report contains comments from the recipient, including corrective actions planned or taken to address the findings.
• IRS Form 990,\textsuperscript{4}
• General Services Administration System for Award Management (SAM),\textsuperscript{5}
• HHS’s Payment Management System (PMS),
• National External Audit Review Center (NEAR) Alerts,\textsuperscript{6}
• DFI internal databases, and
• public information on the organization.\textsuperscript{7}

DFI uses the information gathered through the financial risk assessment to assign a risk level for each applicant as minimal, moderate, or high when a new grant is awarded. DFI staff reevaluate the financial risk for existing recipients on a risk-based schedule: high-risk entities receive a reevaluation at least every 6 months; lower risk entities (moderate and minimal) receive a reevaluation once every 1 to 2 years.\textsuperscript{8}

Some examples of financial risk indicators that may contribute to a recipient’s high-risk assessment include:

• high levels of deferred revenue related to HRSA grants;
• adverse or disclaimer of opinions in Single Audit reports;
• increasing negative financial trends, such as multiple year losses or negative net assets;

\textsuperscript{4} The IRS generally requires tax-exempt organizations to submit IRS Form 990s to provide the IRS with financial information about an organization, among other things. The IRS Form 990 asks whether the organization was made aware of a significant diversion of assets during the year.
\textsuperscript{5} The SAM is an electronic, web-based system that is used to identify parties that are excluded from receiving Federal contracts and certain subcontracts and other types of Federal financial and non-financial assistance and benefits.
\textsuperscript{6} Certain recipients of Federal funds are required to conduct a Single Audit and to submit it to the Federal Audit Clearinghouse, which notifies NEAR of any audit findings related to an HHS award. In 2022, NEAR’s name was changed to the Single Audit Division.
\textsuperscript{7} The 2018 HRSA Federal Award Oversight Manual for Projects Officers, page 40.
\textsuperscript{8} Ibid.
• risk of going out of business within the recipient’s next fiscal year (going concern finding); ⁹
• pending or active bankruptcy;
• verified fraud or OIG investigative activity;
• prior history of borrowing excessive grant funds; or
• loss of nonprofit status.

If DFI identifies a high-risk recipient, HRSA may implement additional oversight activities and insert specific award conditions into the grant award documents as required by the 2018 HRSA Federal Award Oversight Manual for Project Officers (the manual), chapter 7.2. Specific award conditions address the nature of the high-risk designation and may include:

• requiring additional or more frequent financial and program reporting;
• providing technical assistance;
• reducing the amount of the award;
• reducing the grant performance period; or
• establishing special provisions for payment, such as paying grant funds on a reimbursable (rather than advance) basis.

COVID-19 Supplemental Grant Funding

In fiscal year (FY) 2020, HRSA awarded approximately $2 billion in supplemental grant funding to 1,387 health centers nationwide to respond to the COVID-19 public health emergency. ¹⁰

---

⁹ Going concern is an accounting term for a company that is financially stable to meet its obligations and continue its business for the foreseeable future. However, a Going Concern finding in a company’s audited financial statements expresses substantial doubt that the company may not continue or is at risk of discontinuing its operations within the next fiscal year.

¹⁰ This included funding from three COVID-19 appropriation bills: (1) the Coronavirus Aid, Relief and Economic Security (CARES) Act ($1.32 billion), (2) the Paycheck Protection Program and Health Care Enhancement Act ($583 million), and (3) the Coronavirus Preparedness and Response Supplemental Appropriations Act, 2020 ($100 million). We refer to the amount appropriated through these laws as COVID-19 supplemental grant funding. The performance period for these one-time supplemental awards was 12 months and health centers were permitted to charge preaward costs to the awards to support expenses related to the COVID-19 public health emergency dating back to January 20, 2020. Health centers could request for an extension period up to 12 months to complete approved projects or programs by submitting prior approval requests to HRSA.
funding was intended to support health centers’ activities related to the detection, prevention, diagnosis, and treatment of COVID-19, including maintaining or increasing health center capacity and staffing levels during the pandemic. It also provided funding for health centers to purchase, administer, and expand capacity for testing to monitor and suppress COVID-19.\textsuperscript{11} HRSA separately awarded grants for each of the COVID-19 supplemental grant funding appropriations with different activity codes to support its tracking of COVID-19-related spending.\textsuperscript{12, 13}

\textbf{COVID-19 Grant Award Process}

To expedite distribution of the COVID-19 supplemental grant funding, HRSA did not require health centers to apply for these funds. Instead, HRSA made the funds immediately available to health centers and required the health centers to submit activity overviews and budget information within 30 days of the award release date.\textsuperscript{14} Health centers were also required to submit quarterly progress reports to HRSA on the status of activities supported with each supplemental grant funding appropriation.\textsuperscript{15} Specifically, health centers were required to report on activities in five categories: (1) staff and patient safety, (2) testing, (3) maintaining or increasing health center capacity and staffing levels, (4) telehealth, and (5) minor alteration/renovation, as applicable.\textsuperscript{16} HRSA provided guidance to the health centers on allowable uses of the supplemental funds, including terms and conditions in grant award notices. It also maintained technical assistance webpages, online Frequently Asked Questions (FAQs), and recorded webinars.

Initially, all HRSA COVID-19 grant awards included the same terms and conditions. HRSA later added requirements for recipients that DFI assessed as high risk to submit quarterly

\begin{footnotesize}
\begin{enumerate}
\item This funding was from the $583 million COVID-19 supplemental grant funding appropriation awarded for expanding capacity for COVID-19 testing. See footnote 8.
\item Funding appropriated by the Coronavirus Preparedness and Response Supplemental Appropriations Act, 2020; the CARES Act; and the Paycheck Protection Program and Health Care Enhancement Act were issued under activity codes H8C, H8D, and H8E, respectively.
\item The COVID-19 supplemental grant funding was one of many Federal programs to address the pandemic, including the HRSA COVID-19 Uninsured Program, which allowed providers, including health centers, to enroll and submit claims for reimbursement of COVID-19 testing and treatment made to uninsured individuals. Health centers also received operational and other supplemental grants.
\item During a competitive grant application process, this information is usually submitted to, reviewed, and approved by HRSA before funds are awarded to a grant recipient.
\item HRSA reviewed quarterly progress reports submitted by health centers for each award and monitored health centers’ drawdown activities.
\item \texttt{HRSA Coronavirus-Related Funding FAQs}. Accessed on July 28, 2023. Health centers are also required to submit annual Federal Financial Reports and Tangible Personal Property Reports after the completion of each project.
\end{enumerate}
\end{footnotesize}
expenditure reports that included a detailed summary of the previous quarter’s grant expenditures. HRSA returned to its competitive grant award process after the COVID-19 grants were awarded.

HOW WE CONDUCTED THIS AUDIT

Our audit covered HRSA’s process for awarding nearly $2 billion in COVID-19 funds during FY 2020 to 1,387 health centers and its process for identifying and monitoring high-risk recipients. Specifically, we obtained and reviewed the COVID-19 grant budgets, program plans, and risk justification for the 37 health centers that DFI assessed as high risk. In addition, we conducted an independent assessment of and determined whether we agreed with HRSA’s classification that the health centers met the definition of high risk. We reviewed whether HRSA had included additional reporting requirements to the notices of awards to increase monitoring for the 37 high-risk health centers. However, we did not assess how HRSA used the information it received from the additional reporting requirements to further monitor the high-risk health centers. Additionally, we reviewed HRSA’s financial assessments, Single Audit reports, and Internal Revenue Service Form 990 tax returns for 33 judgmentally selected health centers that DFI assessed as minimal or moderate risk to verify that HRSA did not underreport the financial risk associated with these health centers.

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 objectives.

The Appendix contains the details of our audit scope and methodology.

FINDINGS

HRSA had effective processes to identify and monitor the health centers that received COVID-19 grant funds. Specifically, we found that for the 37 health centers HRSA identified as high risk, HRSA appropriately performed financial assessments, assigned the correct risk level based on our independent assessment, and added quarterly expenditure report requirements to the applicable grant awards in accordance with its processes. Additionally, we found that for our sample of 33 moderate or minimal risk health centers that we reviewed, HRSA appropriately assessed the risk level as less than high risk based on the financial information it reviewed. Based on our audit results, this report includes no recommendations.
HRSA EFFECTIVELY IDENTIFIED AND MONITORED HIGH-RISK HEALTH CENTERS

HRSA Appropriately Assessed High-Risk COVID-19 Recipients

HHS awarding agencies must have a framework for evaluating risks posed by applicants for Federal funds. An HHS awarding agency may use a risk-based approach and may consider an applicant’s financial stability and audit reports and findings (45 CFR § 75.205(b) and (c)). Additionally, HRSA should identify and mitigate risks related to awarding grants to health centers to minimize the potential misuse or loss of Federal funds, as required by the HHS Grants Policy Administration Manual, part F, chapter 4.a.1.

We found that for the 37 health centers HRSA identified as high risk, HRSA appropriately performed financial assessments and based on our independent assessment, assigned the correct risk level in compliance with the processes outlined in the manual. Specifically, for the 37 high-risk health centers, HRSA reviewed the organizations’ Single Audit reports and found that:

- 26 had going concern issues in their Single Audit report,
- 5 reported instances of fraud,
- 4 submitted their Single Audit report late,
- 1 was under investigation by the Office of Civil Rights,
- 1 reported on-going financial losses, and
- 1 had drawn down HRSA grant funds too quickly.17

We also reviewed the high-risk health centers’ Single Audit reports to confirm HRSA’s financial assessment findings and verified that it correctly assigned these health centers as high risk based on these findings.

HRSA Appropriately Included Additional Reporting Requirements To Monitor High-Risk COVID-19 Recipients

HRSA required all COVID-19 recipients to electronically submit progress reports that included information on the status of program activities and how grant funds were used every quarter for the CARES, Paycheck Protection Program, and Health Care Enhancement funding and every 6 months for the Preparedness and Response funding, in addition to other requirements.18

17 Total number is greater than 37 because one health center had multiple high-risk indicators.

18 See footnote 16.
After completing risk assessments for COVID-19 recipients, HRSA added an expenditure reporting requirement to the grant awards associated with the 37 high-risk recipients. These 37 high-risk recipients were required to provide a detailed summary of the previous quarter’s grant expenditures in compliance with HRSA’s internal policy decision. In the expenditure reports, high-risk recipients reported their original approved budget, actual monthly grant expenditures, and any variances between the two, broken down by cost categories such as payroll expenses, equipment, supplies, and travel, among other categories.

**HRSA Appropriately Assessed Lower-Risk COVID-19 Recipients**

We found that for the 33 minimal or moderate risk health centers that we reviewed, HRSA appropriately assessed the risk level as less than high risk based on the financial information it reviewed for the financial assessments. Specifically, we found that for the 21 health centers that HRSA assessed as minimal risk, the health centers’ Single Audit report, IRS Form 990, and HRSA’s financial assessments did not contain information that would have raised to the level of HRSA-identified financial risks. For the 12 health centers remaining that HRSA assessed as moderate risk, the health centers’ Single Audit report, IRS Form 990, and HRSA’s financial assessments included some financial risk indicators, but none that, in aggregate, rose to the level of high risk. For example, some moderate risk health centers reported either repeat audit findings or one-time financial losses in their Single Audit reports. The manual defines repeat audit findings and financial losses as moderate risk indicators. HRSA’s financial assessment of these health centers have enabled it to monitor the COVID-19 grants funds that were quickly awarded to recipients.

**OTHER MATTERS**

During our fieldwork, HRSA provided us with its *Risk-Based Recipient Monitoring Framework* (framework), dated April 13, 2021, which became effective after the COVID-19 funds were awarded and establishes lower requirements for assigning high risk to a recipient and lowered the following five financial risk indicators from high to moderate risk:

- going concern finding;
- high levels of deferred revenue;\(^{19}\)
- increasing negative financial trends, such as, multiple year losses or negative net assets;
- OIG investigation; and
- prior history of borrowing excessive grant funds.

---

\(^{19}\) Deferred revenue (or unearned revenue) is created when an organization receives cash payment in advance for goods and services not yet delivered to the customer. It is recorded as a liability in the organization’s financial statements.
Except for going concern findings, lowering the four other risk indicators from high risk to moderate risk generally means that risk mitigation tools, such as additional quarterly financial reporting or restrictions requiring grant funds to be released on a reimbursable basis, are not automatically applied. For recipients with going concern risks, the new monitoring framework continues to prescribe risk mitigation tools.

We reviewed the financial information for the 37 high-risk health centers to determine how the new risk criteria would have impacted HRSA’s monitoring and application of risk mitigation tools for future HRSA grant awards.

Of the 37 health centers that received COVID-19 grants and that HRSA assessed as high risk, 26 had going concern issues in their Single Audit report. When we reviewed the details of the audit reports, we found that 25 of the 26 health centers had significant cash flow problems that management and auditors believed increased the risk of these health centers going out of business within the next fiscal year. Auditors for the remaining health center reported that they were unable to obtain sufficient evidence to provide an opinion whether the health center’s financial statements were accurate. Under the new risk criteria, these 26 health centers would be classified as moderate risk but still would be subject to risk mitigation tools, such as more frequent monitoring calls and site visits and restrictions requiring grant funds to be released on a reimbursable basis.

For the remaining 11 health centers that HRSA assessed as high risk, 2 had financial risk indicators that would be classified as moderate risk under the new monitoring framework, such as financial losses for multiple years and increasing negative financial trends. HRSA would provide normal monitoring and oversight for these two health centers. The remaining nine health centers would remain as high risk (and not be classified as moderate risk under the new framework) because management reported instances of fraud in its Single Audit report or the health centers’ audit reports were issued late.

HRSA provided the following reasoning for why it lowered these risk indicators from high risk to moderate risk. HRSA also stated that it periodically reevaluates the risk-level criteria.

- **Going Concern:** Currently, risk mitigation tools are recommended for high and moderate risk recipients who have a going concern within their Single Audit Reports. HRSA monitors these recipients by holding risk-level meetings every 6 months to share any updated information and to determine if the financial assessment risk level needs to be adjusted. HRSA reviews the health center’s financial assessment prior to creating each grant award and applies restrictions requiring grant funds to be released on a reimbursable basis if the financial assessment risk level is moderate with a going concern.

- **High Levels of Deferred Revenue:** HRSA found that once recipients explain deferred revenue amounts, they are typically attributed to State or other non-Federal funds. Additionally, most of the deferred revenue amounts did not have cash management
findings in the recipients’ Single Audit report. Therefore, HRSA determined that this criterion was more appropriate for the moderate risk level.

- **Increasing Negative Financial Trends, such as Multiple Year Losses or Negative Net Assets:** HRSA made the decision to continue to monitor these financial trends and reviews annual Single Audit reports for any changes in financial condition, while keeping recipients at moderate risk levels.

- **OIG Investigation:** HRSA determined that moderate risk levels were sufficient to alert grant and program staff that allegations of fraud were reported and are currently under OIG investigation. If OIG identifies fraud, the recipients’ risk levels are raised to high.

- **Prior History of Borrowing Excessive Grant Funds:** HRSA moved recipients who had a history of borrowing excessive grant funds from the high to moderate risk level because when a recipient requires additional funds from its grant, HRSA’s grants management staff already provides monitoring and oversight for these recipients and their requests for additional funds. Therefore, HRSA no longer considers these situations as a high risk.

HRSA also explained that although the risk level for some of the financial risk indicators may have been lowered, HRSA may still impose additional requirements as warranted and noted that health centers with elevated risk levels are often selected for fiscal and programmatic technical assistance. HRSA’s management said that program staff are alerted when a health centers’ risk levels changes based on the identification of financial risks.

Lowering of financial risk indicators from high risk to moderate risk levels may decrease oversight and puts Federal funds at risk. For example, HRSA recipients with significant cash flow problems may use grant funds to pay overdue bills instead of using the funds for the grant purposes.

Based on the information provided in this report and any other information available, HRSA may need to further revise its framework to consider the five financial risk indicators as high risk to enable the awarding agency to implement adequate oversight and ensure that Federal funds are protected.
APPENDIX: AUDIT SCOPE AND METHODOLOGY

SCOPE

HRSA awarded nearly $2 billion to about 1,387 health centers through three programs in response to the COVID-19 pandemic. To expedite distribution of COVID-19 funding, HRSA did not require health centers to apply for these grants. Health centers had 30 days from the award release date to submit information that is usually submitted, reviewed, and approved during the grant-application process prior to a recipient receiving funding, such as a program narrative, a budget and budget narrative, and a list of equipment to be purchased if applicable. We did not review the overall internal control structure of HRSA. For example, we did not assess how HRSA used the information it received from the additional reporting requirements to further monitor the high-risk health centers. Rather, we reviewed only those internal controls related to our objective.

Our audit scope covers HRSA COVID-19 funds awarded to health centers from March 2020 through May 2020.

We conducted our audit work with HRSA from January 2021 through April 2023.

METHODOLOGY

To accomplish our objective, we:

- reviewed applicable Federal laws, regulations, and guidance;
- obtained and reviewed HRSA’s policies and procedures for awarding COVID-19 grants and monitoring health centers;
- obtained a list of health centers that received COVID-19 funding from March 2020 through May 2020 and the results of HRSA’s financial risk assessment;
- obtained a list of grant awards made to health centers;
- interviewed HRSA personnel to gain an understanding of HRSA’s controls for awarding and monitoring COVID-19 grant funds;
- selected all 37 high-risk health centers that HRSA identified in its financial risk assessments;
- for each of the 37 selected high-risk health centers, we obtained and reviewed:
  - grant award documentation, including any special terms and conditions, and
o the results of HRSA’s financial assessment performed in the period after the COVID-19 funds were awarded;

• selected 33 moderate or minimal risk health centers based on financial and audit information reported in the health centers’ Single Audit reports and IRS Form 990.

• for each of the 33 selected moderate or minimal risk health centers, we obtained and reviewed:
  o HRSA’s Department of Financial Integrity financial assessment reports,
  o Single Audit reports,
  o IRS Form 990s; and
• discussed the results of our audit with HRSA officials.

We provided HRSA with a draft report on August 8, 2023, for review. HRSA elected not to provide formal comments; however, it provided technical comments, which we addressed as appropriate.

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 any 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 objectives.