



August 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 Finger Lakes Community & Migrant Health
(A-02-10-02007)

The attached final report provides the results of our limited scope review of Finger Lakes Community & Migrant Health. This review is part of an ongoing series of reviews performed by the Office of Inspector General (OIG) to provide oversight of funds provided by the American Recovery and Reinvestment Act of 2009, P.L. No. 111-5 (Recovery Act).

Section 8L of the Inspector General Act, 5 U.S.C. App., requires that the 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 call me at (202) 619-1175 or through email at Lori.Pilcher@oig.hhs.gov. Please refer to report number A-02-10-02007 in all correspondence.

Attachment

Department of Health & Human Services

**OFFICE OF
INSPECTOR GENERAL**

**RESULTS OF LIMITED SCOPE
REVIEW AT
FINGER LAKES COMMUNITY
& MIGRANT HEALTH**



Daniel R. Levinson
Inspector General

August 2010
A-02-10-02007

Office of Inspector General

<http://oig.hhs.gov>

The mission of the Office of Inspector General (OIG), as mandated by Public Law 95-452, as amended, is to protect the integrity of the Department of Health & Human Services (HHS) programs, as well as the health and welfare of beneficiaries served by those programs. This statutory mission is carried out through a nationwide network of audits, investigations, and inspections conducted by the following operating components:

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The 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. Audits examine the performance of HHS programs and/or its grantees and contractors in carrying out their respective responsibilities and are intended to provide independent assessments of HHS programs and operations. These assessments help reduce waste, abuse, and mismanagement and promote economy and efficiency throughout HHS.

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THIS REPORT IS AVAILABLE TO THE PUBLIC
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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, 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 HRSA health centers are community-based and patient-directed organizations that serve populations with limited access to health care.

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.

Finger Lakes Community & Migrant Health (Finger Lakes) is a nonprofit health care agency that provides medical and dental services to residents and migrant agricultural workers throughout western New York State.

Finger Lakes is funded primarily by patient service revenues and Federal and State grants. During calendar year 2009, HRSA awarded Recovery Act funds to Finger Lakes totaling \$1,919,091. Of that amount, \$485,690 was allocated for the purchase of an electronic medical records system, related medical and dental equipment, and a video conferencing system. The remaining \$1,433,401 was allocated for increasing the number of patients served by opening a new health center location and employing additional health care professionals.

OBJECTIVE

Our objective was to assess Finger Lakes’ financial viability, capacity to manage and account for Federal funds, and capability to operate a health center in accordance with Federal regulations.

SUMMARY OF FINDINGS

Based on our assessment, we believe Finger Lakes is financially viable and is generally capable of operating a health center in accordance with Federal regulations. However, we noted certain weaknesses in its ability to properly account for and manage Federal funds. Specifically, we noted that Finger Lakes’ accounting system does not properly segregate operating expenses between Federal and non-Federal programs. We also noted issues related to Finger Lakes’ segregation of duties and procurement practices. Finally, Finger Lakes’ procedures for whistleblower protection do not fully comply with Recovery Act requirements and its inventory records do not include all required elements.

RECOMMENDATION

When monitoring the Recovery Act funds, we recommend that HRSA consider the information presented in this report in assessing Finger Lakes' ability to account for and manage Federal funds and to operate a community health center in accordance with Federal regulations.

FINGER LAKES COMMUNITY & MIGRANT HEALTH COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE

In written comments on our draft report, Finger Lakes generally concurred with our findings and described its completed and ongoing actions to address the deficiencies we identified. Finger Lakes also stated that it uses its accounting software to classify its expenses as Federal or non-Federal expenses and that its quarterly status reports are accurate. Finger Lakes further stated that it draws down equal amounts of Federal funds each month because its monthly expenses exceed the amount it draws down. Finger Lakes stated that it will purchase new accounting software in 2010 and plans to have the software operational in 2011. Finally, Finger Lakes stated that it follows its procurement procedures and indicated that its purchase of an electronic medical record system occurred after it established a committee to review various systems.

Finger Lakes stated that, after the committee decided which system to purchase, it properly justified the sole-source purchase to the Board of Directors, which voted to approve the purchase. Finger Lakes' comments are included in their entirety as the appendix.

During our fieldwork, Finger Lakes did not use its accounting software to class its expenses; therefore, it could not segregate its Federal and non-Federal expenses or ensure that its quarterly status reports were accurate. Regarding Finger Lakes' practice of drawing down equal amounts of Federal funds on a monthly basis, we maintain that such a practice could result in Fingers Lakes drawing down Federal funds in its excess of its Federal expenses, a violation of Federal cost principles for non-profit organizations. If used as described, Finger Lakes' new accounting software will allow it to properly segregate Federal and non-Federal expenses. Finally, we maintain that Finger Lakes did not follow its procurement procedures when it purchased the electronic medical record system because it did not document that it performed a cost or price analysis, prepared a written justification for the sole-source purchase, or that the Board of Directors voted to approve the purchase.

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INTRODUCTION

BACKGROUND

The 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, 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 (HHS), 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 and areas, and vulnerable populations composed of migrant and seasonal farm workers, the homeless, and residents of public housing. Health centers funded by HRSA are community-based and patient-directed organizations meeting the definition of “health center” under 42 U.S.C. § 254(b).

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.

Finger Lakes Community & Migrant Health

Finger Lakes Community & Migrant Health (Finger Lakes) is a nonprofit health care agency that provides medical and dental services to residents and migrant agricultural workers throughout western New York State.¹

Finger Lakes is funded primarily by patient service revenues and Federal and State grants. During calendar year (CY) 2009, HRSA awarded Recovery Act funds to Finger Lakes totaling \$1,919,091. Of that amount, \$485,690 was allocated for the purchase of an electronic medical records system, related medical and dental equipment, and a video conferencing system. The remaining \$1,433,401 was allocated for increasing the number of patients served by opening a new health center location and employing additional health care professionals.

Requirements for Federal Grantees

Nonprofit organizations that receive HRSA funds must comply with Federal cost principles found at 2 CFR pt. 230, “Cost Principles for Non-Profit Organizations” (formerly Office of

¹ Finger Lakes’ corporate name is Finger Lakes Migrant Health Care Project, Inc.; however, it does business as Finger Lakes Community & Migrant Health.

Management and Budget (OMB) Circular A-122). In addition, 42 U.S.C. § 254(b) defines requirements for health centers under the Health Center Program.

The Standards for Financial Management Systems found at 45 CFR § 74.21, establish regulations for grantees to maintain financial management systems. Grantees' financial management systems must provide for accurate, current, and complete disclosure of the financial results of each HHS-sponsored project or program (45 CFR § 74.21(b)(1)); must ensure that accounting records are supported by source documentation (§ 74.21(b)(7)); and must provide effective control over and accountability of all funds, property, and other assets so that recipients adequately safeguard all such assets and assure they are used solely for authorized purposes (§ 74.21(b)(3)). Grantees also must have written procedures for determining the reasonableness, allocability, and allowability of costs in accordance with the provisions of the applicable Federal cost principles and the terms and conditions of the award (§ 74.21(b)(6)).

In addition, grantees must establish written procurement procedures that include certain provisions as set forth in 45 CFR § 74.44. In addition, grantees must establish procedures related to whistleblower protection. Finally, grantees are required to maintain inventory control systems.

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

Our objective was to assess Finger Lakes' financial viability, capacity to manage and account for Federal funds, and capability to operate a health center in accordance with Federal regulations.

Scope

We conducted a limited review of Finger Lakes' financial viability, financial management system, and related policies and procedures. Therefore, we did not perform an overall assessment of Finger Lakes' internal control structure. Rather, we performed limited tests and other auditing procedures on Finger Lakes' financial management system to assess its ability to administer federally funded projects.

We performed our fieldwork at Finger Lakes' administrative office in Penn Yan, New York, during March 2010.

Methodology

To accomplish our objective, we:

- reviewed relevant Federal laws, regulations, and guidance;
- obtained Finger Lakes' HRSA grant application packages and supporting documentation;

- interviewed Finger Lakes personnel to gain an understanding of its accounting system and internal controls;
- reviewed Finger Lakes' financial management procedures related to accounting documentation, preparation of financial reports, procurement, drawdown of Federal funds, inventory, and other financial matters;
- reviewed Finger Lakes' independent audit reports and related financial statements for CYs 2006 through 2008;
- performed ratio analyses of Finger Lakes' financial statements; and
- reviewed Finger Lakes' administrative procedures related to personnel, conflict resolution, whistleblower protection, and other non-financial matters.

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, we believe Finger Lakes is financially viable and is generally capable of operating a health center in accordance with Federal regulations. However, we noted certain weaknesses in its ability to properly account for and manage Federal funds. Specifically, Finger Lakes' accounting system does not properly segregate operating expenses between Federal and non-Federal programs. We also noted issues related to Finger Lakes' segregation of duties and procurement practices. Finally, Finger Lakes' procedures for whistleblower protection do not fully comply with Recovery Act requirements and its inventory records do not include all required elements.

ACCOUNTING SYSTEM

Pursuant to 45 CFR § 74.21, grantees must maintain financial systems that provide for accurate and complete reporting of grant-related financial data. Pursuant to 45 CFR § 74.22(b)(2), cash advances to grant recipients shall be limited to the minimum amounts needed. Pursuant to 2 CFR, pt. 230, App. A, § A(4)(a)(1) (OMB Circular A-122, Att: A, § A.4.a.1), grant expenses must be incurred specifically for the grant award.

Finger Lakes does not use its accounting software to properly segregate the organization's operating expenses (except for Recovery Act equipment purchases) between Federal and non-Federal programs.² As a result, Finger Lakes cannot properly use immediate expenses as the

² Recovery Act equipment purchases, consisting of new medical and dental equipment and an electronic medical records system, were properly accounted for. This was due to the equipment purchases not being considered operating expenses.

basis for withdrawing funds from the HHS payment management system. Rather, Finger Lakes withdraws an equal amount of grant funds every two weeks until the funds are exhausted. The amount drawn down is then recorded as incurred Federal expenditures on quarterly status reports submitted to the Federal Government.³ As a result, Federal funds may be used to pay for non-Federal expenses throughout each quarter and, consequently, quarterly status reports submitted to the Federal Government may not provide for accurate and complete reporting of grant-related financial data.

SEGREGATION OF DUTIES

Pursuant to 45 CFR § 74.21(b)(3), grantees' financial management systems must provide effective control over and accountability of all funds, property, and other assets so that recipients can adequately safeguard all such assets and assure they are used solely for authorized purposes.

One Finger Lakes employee was responsible for posting journal entries, maintaining control of unused checks, transferring funds between bank accounts, and reconciling bank statements. For example, as of December 31, 2009, the employee was responsible for administering approximately \$100,000 in cash.⁴

PROCUREMENT PRACTICES

Pursuant to 45 CFR § 74.44, grantees are required to establish written procurement procedures, which require solicitations for goods and services to provide a clear and accurate description of the technical requirements for the material, product or service to be procured, requirements which the bidder/offeror must fulfill and all other factors to be used in evaluating bids or proposals, and the specific features of "brand name or equal" descriptions that bidders are required to meet when such items are included in the solicitation. In addition, grantees must document that every procurement action is supported by some form of cost or price analysis. Finally, grantees must prepare a written justification for sole-source purchases over \$100,000.

Finger Lakes' written procedures for procurement specified that (1) every procurement action be supported by some form of cost or price analysis, (2) competitive bids be obtained for purchases over \$25,000, and (3) all purchases requiring a competitive bid be approved by Finger Lakes' Board of Directors. However, Finger Lakes did not always follow its procedures. Specifically, Finger Lakes purchased medical equipment, totaling \$26,190, and an electronic medical records system, with an expected final cost of \$158,050, without documenting that a cost or price analysis was performed. Moreover, it did not solicit competitive bids or seek Board approval for these purchases. Finally, Finger Lakes did not prepare a written justification for the sole-source purchase of the electronic medical records system. Consequently, Finger Lakes may not have purchased this equipment in the most economical, practical, and competitive manner.

³ Finger Lakes submits a Standard Form 269, Financial Status Report and a Health Center Quarterly Report to HRSA via a secure website, as well as a Recovery Act report via a Federal government website for reporting Recovery Act funding data.

⁴ This amount is based on Finger Lakes' 2009 unaudited financial statements.

WHISTLEBLOWER PROCESS

Section 1553(a) of the Recovery Act prohibits reprisals against employees of an organization awarded Recovery Act funds for disclosing to appropriate authorities any credible evidence of (1) gross mismanagement of an agency contract or grant relating to covered funds; (2) a gross waste of covered funds; (3) a substantial and specific danger to public health or safety related to the implementation or use of covered funds; (4) an abuse of authority related to the implementation or use of covered funds; or (5) a violation of law, rule, or regulation related to an agency contract (including the competition for or negotiation of a contract) or grant awarded or issued relating to covered funds. Pursuant to section 1553(e) of the Recovery Act, any employer receiving covered funds shall post notice of the rights and remedies provided for the protection of employees under this section.

Finger Lakes established a whistleblower policy detailing how employees can communicate instances of wrongdoing to Finger Lakes officials. The policy also prohibits reprisals against whistleblowers. However, the policy does not address the right of a whistleblower to report wrongdoing to all appropriate authorities.

INVENTORY RECORDS

Pursuant to 45 CFR § 74.34(f), grantees are required to maintain inventory records containing the following information for equipment acquired with Federal funds: a description of the equipment, an identification number, its location, acquisition and disposition data, condition of property, and whether title vests with the grantee or the Federal Government.

Finger Lakes maintains inventory records. However, its inventory records do not include acquisition or disposition data, condition of the property, or whether title vests with Finger Lakes or the Federal Government. As of December 31, 2009, Finger Lakes' equipment was valued at \$830,985, according to its 2009 unaudited financial statements.

RECOMMENDATION

When monitoring the Recovery Act funds, we recommend that HRSA consider the information presented in this report in assessing Finger Lakes' ability to account for and manage Federal funds and to operate a community health center in accordance with Federal regulations.

FINGER LAKES COMMUNITY & MIGRANT HEALTH COMMENTS

In written comments on our draft report, Finger Lakes generally concurred with our findings and described its completed and ongoing actions to address the deficiencies we identified. Finger Lakes also stated that it uses its accounting software to classify its expenses as Federal or non-Federal expenses and that its quarterly status reports are accurate. Finger Lakes further stated that it draws down equal amounts of Federal funds each month because its monthly expenses exceed the amount it draws down. Finger Lakes stated that it will purchase new accounting software in 2010 and plans to have the software operational in 2011. Finally, Finger Lakes stated that it follows its procurement procedures and indicated that its purchase of an electronic

medical record system occurred after it established a committee to review various systems. Finger Lakes stated that, after the committee decided which system to purchase, it properly justified the sole-source purchase to the Board of Directors, which voted to approve the purchase. Finger Lakes' comments are included in their entirety as the appendix.

OFFICE OF INSPECTOR GENERAL RESPONSE

During our fieldwork, Finger Lakes did not use its accounting software to class its expenses; therefore, it could not segregate its Federal and non-Federal expenses or ensure that its quarterly status reports were accurate. Regarding Finger Lakes' practice of drawing down equal amounts of Federal funds on a monthly basis, we maintain that such a practice could result in Fingers Lakes drawing down Federal funds in its excess of its Federal expenses, a violation of Federal cost principles for non-profit organizations. If used as described, Finger Lakes' new accounting software will allow it to properly segregate Federal and non-Federal expenses. Finally, we maintain that Finger Lakes did not follow its procurement procedures when it purchased the electronic medical record system because it did not document that it performed a cost or price analysis, prepared a written justification for the sole-source purchase, or that the Board of Directors voted to approve the purchase.

APPENDIX

APPENDIX: FINGER LAKES COMMUNITY & MIGRANT HEALTH COMMENTS

Finger Lakes Community & Migrant Health

Providing comprehensive health care across the Finger Lakes.



Administration

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Finger Lakes Migrant Health

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Sodus Community Health

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315-483-2451 fax

Geneva Community Health

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Geneva, NY 14456
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Port Byron Community Health

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Port Byron, NY 13140
315-776-9700 phone
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Penn Yan Community Health

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Penn Yan, NY 14527
315-536-2752 phone
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Bath Community Health

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Bath, NY 14810
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Dundee Dental Center

13 Seneca Street
Dundee, NY 14837
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Finger Lakes Community & Migrant Health has the following responses to the OIG audit that was conducted in March 2010. The organization has made changes as recommended by the auditors. Those changes are detailed below. There are also responses to some of the findings.

Accounting System: Finger Lakes will be purchasing a new accounting software package in 2010 and plan to have it in place and operational by the end of the 2nd quarter of 2011. We have not been in the position to implement a new financial system in 2009 or 2010 to date as we have a new Practice Management system as of August 2009 and have just completed the conversion to an Electronic Health Record system in May of 2010. We have had to adjust to those new systems and the Board of Directors felt that the Finance Department should wait until the latter part of 2010 to begin a financial system changeover. In June of 2009, Finger Lakes was the recipient of Technical Assistance from HRSA for our New Access Point CHC grant. This topic of purchasing a new accounting system was discussed, and it was mutually agreed by that team that Finger Lakes should finish the implementation of the Practice Management System and EHR before changing financial systems.

Currently, Finger Lakes utilize's "Quickbooks" as the accounting software. We have found this system to be adequate for our needs over the last 7 years. This system does allow for the segregation of federal verses non federal expenses. Finger Lakes uses the class system feature in QB to designate all expenses. Each month, we are able to post all expenses including payroll, non-personal expenses, depreciation, etc to the program and then pull out the appropriate reports necessary for each of our many grant programs. We are required to track all of our expenses for several New York State Department of Health grants as well as the federal programs. Finger Lakes officials did not acknowledge that federal funds may be used to pay for non-federal expenses. The quarterly status reports are accurate. We have chosen to withdraw equal amounts each month from our federal funding as our expenses each month for those programs exceed the amount we draw down from the Payment Management System.

Segregation of duties: Finger Lakes' has made 2 changes in the segregation of duties based on the recommendations of the OIG auditors. The unused checks have been moved from the Financial Administrator's office and are housed in a separate, appropriate and secure area. The bank statements are now reconciled by an independent financial consultant who works with Finger Lakes on a monthly basis.

Finger Lakes has experienced a very substantial amount of growth in the last couple of years, due to the lack of services in the Finger Lakes region, as well as the mission of the organization to serve rural communities. This growth has been closely monitored. The Board of Directors, and most importantly, the Finance Committee of the Board has been working with the Finance staff to continue to delineate the segregation of duties as we have grown. In the OIG report it is stated that one Finger Lakes employee had control of transferring funds between bank accounts, in addition to other financial duties. That employee did transfer funds between bank accounts to make supervisor approved payments on the line of credit. This person was not able to transfer any funds from the online bank accounts to any other account. All transactions that occur to move funds to pay down our line of credit are authorized by the CEO.

Finger Lakes Community & Migrant Health OIG Audit response (cont.)

Procurement Practices: Finger Lakes does follow its own policies for procurement of goods. When Finger Lakes made the decision to seek the best EHR system for the practice, a committee was established to review various systems and decide which would work for our purposes. After looking at 3 distinct systems, the decision was made to purchase Eclinical Works (ECW). This EHR system is a proprietary item. Finger Lakes was not able to get 3 bids on this system as only the company that makes ECW, sells it. The Board of Director's did discuss and make the final decision to purchase the EHR system. The sole-source purchase of ECW quote was given to the Board of Directors to review, and the Board voted to approve the purchase, and signed off on the checks that paid for the system. The failure to properly document the vote in the minutes of the Board of Director meeting was acknowledged by 2 Board members to the OIG auditors. The Board of Director's has made a change in how its business is documented.

Whistleblower Process: Finger Lakes has made one change on the Whistleblower Policy. Finger Lakes does have an adequate whistleblower policy in its personnel policies that is given to every employee annually. The OIG auditors told Finger Lakes that what was lacking on the whistleblower policy was a federal contact number for employees to reference in addition to the contact information that was already on our policy. A federal authority contact has been added to the Finger Lakes Whistleblower policy.

Inventory Records: Finger Lakes has made a change on its inventory system. We have added the information recommended by the OIG auditors.

Sincerely,

Mary Zelazny, CEO