

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**COMMUNITY MEDICAL AND
DENTAL CARE, INC., DID NOT
MEET SELECT FINANCIAL
PERFORMANCE MEASURES AND
CLAIMED UNALLOWABLE
FEDERAL GRANT EXPENDITURES**

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



Gloria L. Jarmon
Deputy Inspector General

November 2012
A-02-11-02001

Office of Inspector General

<https://oig.hhs.gov>

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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 (42 U.S.C. § 254b). The Health Center Program provides comprehensive primary health care services to medically underserved populations through planning and operating grants to health centers. Within the U.S. Department of Health and Human Services (HHS), the Health Resources and Services Administration (HRSA) administers the program.

The Health Center Program provides grants to nonprofit private or public entities that serve designated medically underserved populations and areas, as well as vulnerable populations of migrant and seasonal farm workers, the homeless, and residents of public housing. These grants are commonly referred to as “section 330 grants.”

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, \$2 billion of which was to expand the Health Center Program by serving more patients, stimulating new jobs, and meeting the expected increase in demand for primary health care services among the Nation’s uninsured and underserved populations. HRSA awarded a number of grants using Recovery Act funding in support of the Health Center Program, including Capital Improvement Program (CIP) and Increased Demand for Services (IDS) grants.

Community Medical and Dental Care, Inc. (CMADC), is a nonprofit, community-based medical care provider that operates health centers in Spring Valley and Monsey, New York. CMADC provides primary and specialty care services to medically underserved individuals and is funded primarily by patient service revenues, Federal grants, and State funds.

CMADC received approximately \$25,582,060 in revenue from all funding sources during calendar years 2008 through 2010, including approximately \$3.2 million awarded by HRSA, of which CMADC expended \$3 million. Of this amount, approximately \$2.1 million in section 330 grant funding was awarded to supplement CMADC health center operations. The remaining \$1.1 million was awarded in fiscal year 2009 under the Recovery Act and included approximately \$800,000 under a CIP grant to install two oral health centers and approximately \$300,000 awarded under an IDS grant to create cardiology and nutrition departments.

In an era of increased focus on Federal expenditures and their results, it is critical that Federal agencies ensure that the organizations they fund are positioned to continue meeting program objectives and providing services. This is even more critical for agencies that fund programs intended to provide services to medically underserved and vulnerable populations. HRSA uses guidance detailed in its Bureau of Primary Health Care Policy Information Notice 2002-18 (PIN 2002-18), dated April 30, 2002, in part to evaluate Community Health Centers operating under a financial recovery plan through the use of audited financial statements to ensure the centers’ financial stability and viability.

In addition to PIN 2002-18, which HRSA regularly uses during its internal reviews, HRSA published “Practice Management Benchmarks” (benchmark guidance), dated March 27, 2002, which provides additional financial performance measures to evaluate grantee performance.

CMADC must also comply with Federal cost principles in 2 CFR part 230, *Cost Principles for Non-Profit Organizations*, the requirements for health centers in 42 U.S.C. § 254(b), and the financial management system requirements in 45 CFR § 74.21. Pursuant to 2 CFR part 230, Appendix A, § A.2.g, costs must be adequately documented to be allowable under an award. Pursuant to 2 CFR part 230, Appendix B, §§ 8.b and 8.m, for salaries and wages to be allowable for Federal reimbursement, grantees must maintain personnel activity reports that reflect the distribution of activity of each employee whose compensation is charged, in whole or in part, directly to Federal awards.

OBJECTIVES

Our objectives were to determine (1) whether CMADC met select HRSA financial performance measures and (2) whether CMADC’s grant expenditures were allowable.

SUMMARY OF FINDINGS

CMADC did not meet select HRSA financial performance measures. In addition, CMADC claimed Federal grant expenditures totaling \$2,999,659 that were not separately accounted for. Specifically, CMADC commingled expenditures in its accounting system with other operational payments and did not maintain personnel activity reports for employees who worked on HRSA grants. Therefore, we could not determine whether these costs were allowable. CMADC claimed these costs because of deficiencies in its internal controls and because CMADC officials were unaware of Federal requirements relating to (1) the accounting of Federal expenditures and (2) maintaining personnel activity reports that reflect the distribution of activity for each employee whose compensation is charged, in whole or in part, directly to Federal awards.

RECOMMENDATION

We recommend that HRSA either require CMADC to refund \$2,999,659 to the Federal Government (\$2,154,484 related to section 330 grants, \$269,523 related to the IDS grant, and \$575,652 related to the CIP grant) or work with CMADC to determine whether any of the costs that it claimed against these grants were allowable.

COMMUNITY MEDICAL AND DENTAL CARE, INC., COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE

In written comments on our draft report, CMADC stated that it has been working with HRSA to achieve “financial recovery” and described steps that it has taken to improve its financial ratios. CMADC did not indicate whether it agreed that it (1) had commingled expenditures in its accounting system with other operational payments and (2) had not maintained personnel activity reports for employees who worked on HRSA grants. However, CMADC stated that HRSA never requested CMADC to separately account for expenditures. In addition, CMADC stated

that if HRSA requested a detailed allocation of expenditures for any of CMADC's funded grants, CMADC would be able to provide it.

CMADC also provided a technical comment, which we addressed. CMADC's comments appear in their entirety as Appendix A.

HEALTH RESOURCES AND SERVICES ADMINISTRATION COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE

In written comments on our draft report, HRSA agreed with our recommendation that it require CMADC to refund \$2,999,659 to the Federal Government or work with CMADC to determine whether any of the costs that CMADC claimed were allowable. HRSA also stated that CMADC is no longer a recipient of section 330 grant funds.

In our draft report, we recommended that HRSA: (1) impose special award conditions to address CMADC's financial performance, (2) ensure that CMADC improves its financial management system, (3) ensure that CMADC develops policies and procedures for determining the allowability of expenditures, and (4) educate CMADC officials on Federal requirements for supporting costs. However, since CMADC is no longer a funded section 330 grantee, we are no longer making these recommendations.

HRSA's comments are included in their entirety as Appendix B.

TABLE OF CONTENTS

	<u>Page</u>
INTRODUCTION	1
BACKGROUND	1
Health Center Program	1
American Recovery and Reinvestment Act of 2009.....	1
Community Medical and Dental Care, Inc.	1
Health Resources and Services Administration	
Financial Performance Measures	2
Federal Requirements for Grantees	2
Special Award Conditions	2
OBJECTIVES, SCOPE, AND METHODOLOGY	2
Objectives	2
Scope.....	3
Methodology	3
FINDINGS AND RECOMMENDATION	4
SELECTED FINANCIAL PERFORMANCE MEASURES NOT MET	4
Days of Expenses Covered by Cash	4
Current and Cash Ratios	4
Working Capital.....	5
Net Assets	5
Accounts Receivable Collections	6
Average Payment Period.....	6
GRANT FUNDS NOT SEPARATELY ACCOUNTED FOR AND	
NOT SUPPORTED WITH DOCUMENTATION	6
Federal Requirements	6
Expenditures for Section 330 Grants	7
Expenditures for the Increased Demand for Services Grant.....	7
Expenditures for the Capital Improvement Program Grant.....	8
RECOMMENDATION	8
COMMUNITY MEDICAL AND DENTAL CARE, INC., COMMENTS	8
OFFICE OF INSPECTOR GENERAL RESPONSE	9
HEALTH RESOURCES AND SERVICES ADMINISTRATION COMMENTS	
AND OFFICE OF INSPECTOR GENERAL RESPONSE	9

APPENDIXES:

A: COMMUNITY MEDICAL AND DENTAL CARE, INC., COMMENTS

B: HEALTH RESOURCES AND SERVICES ADMINISTRATION COMMENTS

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, codified at 42 U.S.C. § 254b. The Health Center Program provides comprehensive primary health care services to medically underserved populations through planning and operating grants to health centers. Within the U.S. Department of Health and Human Services (HHS), the Health Resources and Services Administration (HRSA) administers the program.

The Health Center Program provides grants to nonprofit private or public entities that serve designated medically underserved populations and areas, as well as vulnerable populations of migrant and seasonal farm workers, the homeless, and residents of public housing. These grants are commonly referred to as “section 330 grants.”

American Recovery and Reinvestment Act of 2009

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, \$2 billion of which was to expand the Health Center Program by serving more patients, stimulating new jobs, and meeting the expected increase in demand for primary health care services among the Nation’s uninsured and underserved populations. HRSA awarded a number of grants using Recovery Act funding in support of the Health Center Program, including Increased Demand for Services (IDS) and Capital Improvement Program (CIP) grants.

Community Medical and Dental Care, Inc.

Community Medical and Dental Care, Inc. (CMADC), is a nonprofit, community-based medical care provider that operates health centers in Spring Valley and Monsey, New York. CMADC provides primary and specialty care services to medically underserved individuals and is funded primarily by patient service revenues, Federal grants, and State funds. CMADC also controls several affiliated organizations (e.g., Rockland Community Development Council).

CMADC received approximately \$25.6 million in revenue from all funding sources during calendar years (CY) 2008 through 2010, including approximately \$3.2 million awarded by HRSA, of which CMADC expended \$3 million. Specifically:

- During CYs 2008 through 2010, HRSA awarded CMADC approximately \$2.1 million in section 330 grant funds to supplement CMADC’s health center operations.
- During CY 2009, HRSA awarded CMADC approximately \$ 1.1 million in Recovery Act funds. Approximately \$800,000 of this amount was awarded under a CIP grant to install

two oral health centers, and approximately \$300,000 was awarded under an IDS grant to create cardiology and nutrition departments.¹

Health Resources and Services Administration Financial Performance Measures

In an era of increased focus on Federal expenditures and their results, it is critical that Federal agencies ensure that the organizations they fund are positioned to continue meeting program objectives and providing services. This is even more critical for agencies that fund programs intended to provide services to medically underserved and vulnerable populations. HRSA uses guidance detailed in its Bureau of Primary Health Care Policy Information Notice 2002-18 (PIN 2002-18), dated April 30, 2002, in part to evaluate Community Health Centers operating under a financial recovery plan through the use of audited financial statements to ensure the centers' financial stability and viability.

In addition to PIN 2002-18, which HRSA regularly uses during its internal reviews, HRSA published "Practice Management Benchmarks" (benchmark guidance), dated March 27, 2002, which provides additional financial performance measures to evaluate grantee performance.

Federal Requirements for Grantees

Title 45, part 74, of the Code of Federal Regulations establishes uniform administrative requirements governing HHS grants and agreements awarded to nonprofit organizations. As a nonprofit organization in receipt of Federal funds, CMADC must comply with Federal cost principles in 2 CFR pt. 230, *Cost Principles for Non-Profit Organizations* (formerly Office of Management and Budget Circular A-122), incorporated by reference at 45 CFR § 74.27(a). These cost principles specify the criteria that costs must meet to be reasonable, allocable, and otherwise allowable. The HHS awarding agency may include additional requirements that are considered necessary to attain the award's objectives.

Special Award Conditions

Pursuant to 45 CFR § 74.14, HRSA may impose additional requirements if a grant recipient has a history of poor performance, is not financially stable, does not have a financial management system that meets Federal standards, has not conformed to the terms and conditions of a previous award, or is not otherwise responsible.

OBJECTIVES, SCOPE, AND METHODOLOGY

Objectives

Our objectives were to determine (1) whether CMADC met select HRSA financial performance measures and (2) whether CMADC's grant expenditures were allowable.

¹ CMADC's grant budget periods were as follows: March 1, 2008, through February 28, 2011 (includes three budget periods), for the section 330 funds; June 29, 2009, through June 28, 2011, which was extended to March 31, 2012, for the CIP funds; and March 27, 2009, through March 26, 2011, for the IDS funds.

Scope

We analyzed CMADC's financial performance during CYs 2005 through 2009. Our analyses included a review of select HRSA financial performance measures, including a review of CMADC's days of expenses covered by cash, current and cash ratios, working capital, net assets, accounts receivable collections, and average payment period. We also reviewed costs totaling \$3 million in Federal grant expenditures for the period March 1, 2008, through June 28, 2011.

We performed our fieldwork at CMADC's administrative office in Monsey, New York, from November 2010 through April 2011.

Methodology

To accomplish our objective, we:

- reviewed relevant Federal laws, regulations, and guidance;
- reviewed CMADC's HRSA grant applications, notices of grant award, and supporting documentation;
- reviewed minutes from CMADC's board of directors meetings;
- interviewed CMADC personnel to gain an understanding of CMADC's accounting system and its internal controls over Federal expenditures;
- reviewed CMADC's financial management procedures related to accounting documentation and estimates, preparation of financial reports, payroll, and other financial matters;
- reviewed CMADC's independent auditor's reports and related financial statements for CYs 2005 through 2009;
- analyzed CMADC's audited financial statements;
- reviewed CMADC's general ledger and chart of accounts for the period CYs 2008 through 2010; and
- reviewed CMADC employee time and attendance sheets.

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.

FINDINGS AND RECOMMENDATION

CMADC did not meet select HRSA financial performance measures. In addition, CMADC claimed Federal grant expenditures totaling \$2,999,659 that were not separately accounted for. Specifically, CMADC commingled expenditures in its accounting system with other operational payments and did not maintain personnel activity reports for employees who worked on HRSA grants. Therefore, we could not determine whether these costs were allowable. CMADC claimed these costs because of deficiencies in its internal controls and because CMADC officials were unaware of Federal requirements relating to (1) the accounting of Federal expenditures and (2) maintaining personnel activity reports that reflect the distribution of activity for each employee whose compensation is charged, in whole or in part, directly to Federal awards.

SELECTED FINANCIAL PERFORMANCE MEASURES NOT MET

To assess CMADC's performance relative to HRSA's financial performance measures, we analyzed CMADC's (1) days of expenses covered by cash, (2) current and cash ratios, (3) working capital, (4) net assets, (5) collections of accounts receivable, and (6) average age of accounts payable.

Days of Expenses Covered by Cash

Measuring days of expenses covered by cash determines whether an organization has enough cash on hand to cover its operating expenses. This measure is calculated by dividing the yearend cash balance by the average daily expenses. According to HRSA's benchmark guidance, recipients should have 60 to 70 days of operating cash on hand. For the 5 years that we analyzed, CMADC's cash balances were never greater than 1 day of expenses.²

Current and Cash Ratios

The current ratio measures an organization's ability to pay its short-term liabilities (e.g., debt) with its short-term assets (e.g., cash, inventory, receivables). The higher the current ratio, the more likely the organization is able to pay its obligations. A ratio of less than 1 suggests that the organization may be unable to pay its obligations. The current ratio is calculated by dividing the organization's current assets by its current liabilities. Pursuant to PIN 2002-18, HRSA recommends that grantees maintain a current ratio greater than 1.5. For 2005, 2006, 2007, 2008, and 2009, CMADC had current ratios of 0.23, 0.32, 0.45, 0.57, and 1.12, respectively.³

² Given that Federal regulations (45 CFR § 74.22) require that grantees minimize the amount of time between the drawdown of Federal funds and the disbursement of those funds, this particular performance measure should be applied in situations where a grantee has large amounts of operational funds that are non-Federal grant funds; therefore, this performance measure would apply to CMADC.

³ In 2009, as a result of payment agreements with the Internal Revenue Service and the New York State Department of the Treasury for unpaid taxes, CMADC's current liabilities were decreased by \$2 million, resulting in the positive working capital and 1.12 current ratio.

In addition, even if an organization's current ratio is greater than 1.5, it may not be able to pay its current obligations if the majority of its current assets consist of accounts receivable, especially if the accounts receivable are not collected in a timely manner. The cash ratio is related to the current ratio and is commonly used to measure an organization's liquidity. It can therefore determine whether, and how quickly, the organization can repay its short-term debt. The cash ratio is calculated by dividing an organization's cash balance by its current liabilities. For 2005, 2006, 2007, 2008, and 2009, CMADC's cash ratios were 0.0012, 0.0005, 0.0001, 0.0003, and 0.003, respectively, indicating that CMADC did not have enough cash on hand to pay its short-term liabilities.

Working Capital

Working capital is a common measure of an organization's liquidity, efficiency, and overall health. Working capital is calculated by subtracting current liabilities from current assets. Pursuant to PIN 2002-18, HRSA recommends that grantees maintain a positive working capital greater than 2 months of expenditures.

For the period 2005 through 2008, CMADC did not maintain a positive working capital. At the end of 2005, CMADC's working capital was negative \$2,658,551, with an average of \$19,110 of expenditures per day. At the end of 2006, its working capital was negative \$2,415,302, with an average of \$19,553 of expenditures per day. At the end of 2007, its working capital was negative \$2,262,240, with an average of \$19,971 of expenditures per day. At the end of 2008, its working capital was negative \$1,985,413, with an average of \$19,597 of expenditures per day. For 2009, CMADC maintained a positive working capital of \$280,259; however, with an average of \$22,198 of expenditures per day, working capital covered only 13 days of expenditures.

Net Assets

An organization's net assets, an indicator of financial position, is derived by subtracting total liabilities from total assets. If net assets are negative, CMADC may have difficulty financing its day-to-day operations. Pursuant to PIN 2002-18, grantees' net assets should be greater than zero. CMADC's net assets were approximately negative \$2 million each year for the period 2005 through 2009.

We performed an analysis of CMADC's unrestricted net assets to measure its reserve position.⁴ We calculated the unrestricted net assets ratio by dividing unrestricted net assets by total expenses. If the ratio is low, the organization lacks unrestricted spendable funds to meet cash shortages, emergencies, or potential deficit situations; this is indicative of a low reserve position. For the period 2005 through 2009, CMADC's unrestricted net assets ratio was negative 0.3.

⁴ Unrestricted net assets are the part of a nonprofit organization's net assets that are neither permanently restricted nor temporally restricted by donor-imposed stipulations. This measure of reserve position is useful in assessing an organization's ability to allocate resources to provide services or particular kinds of services or to make cash payments to creditors in the future.

Accounts Receivable Collections

The average accounts receivable collection period is the amount of time it takes an organization to collect its accounts receivable balances. It is calculated by dividing an organization's yearend accounts receivable balance by its yearend revenue balance, multiplied by the number of days in the year. According to HRSA's benchmark guidance, recipients should collect their accounts receivable in 65 days or less to maintain a healthy cashflow. For 2005, 2006, 2007, 2008, and 2009, CMADC collected its accounts receivable in an average of 56 days, 56 days, 95 days, 128 days, and 109 days, respectively.

Average Payment Period

The average payment period is the number of days an organization takes to pay its current liabilities. It is a measure of the organization's efficiency in utilizing its resources. Pursuant to PIN 2002-18, recipients should pay their current liabilities in 60 days or less. For 2005, 2006, 2007, 2008, and 2009, CMADC paid its current liabilities in an average of 181 days, 182 days, 206 days, 235 days, and 102 days, respectively.

GRANT FUNDS NOT SEPARATELY ACCOUNTED FOR AND NOT SUPPORTED WITH DOCUMENTATION

Federal Requirements

HRSA regulations governing the Health Center Program require that all grant payments be accounted for separately from all other funds, including funds derived from other grant awards (42 CFR § 51c.112(a)). To help ensure that Federal requirements are met, grantees must maintain financial management systems in accordance with 45 CFR § 74.21. These 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)) and must ensure that accounting records are supported by source documentation (45 CFR § 74.21(b)(7)). Grantee records must adequately identify "the source and application of funds for HHS-sponsored activities," including "information pertaining to Federal awards, authorizations, obligations, unobligated balances, assets, outlays, income and interest" (45 CFR § 74.21(b)(2)). Grantees also must have written procedures for determining the allowability of expenditures in accordance with the provisions of the applicable Federal cost principles and the terms and conditions of the award (45 CFR § 74.21(b)(6)). Paragraph 4 of the Program Terms in CMADC's IDS Notice of Grant Award includes a provision that recipients must account for each Recovery Act award and subaward separately and draw down funds on an award-specific basis. The grant term and condition specifically prohibits the pooling of Recovery Act award funds with other funds for drawdown or other purposes.

Pursuant to 2 CFR part 230, Appendix A, § A.2.g, costs must be adequately documented to be allowable under an award. Pursuant to 2 CFR part 230, Appendix B, §§ 8.b and 8.m, for salaries and wages to be allowable for Federal reimbursement, grantees must maintain personnel activity reports that reflect the distribution of activity of each employee whose compensation is charged, in whole or in part, directly to Federal awards. These reports must be signed by the employee or

a supervisory official having firsthand knowledge of the employee's activities, be prepared at least monthly, coincide with one or more pay periods, and account for the total activity of the employee.

Expenditures for Section 330 Grants

We could not determine the allowability of \$2,154,484 in section 330 grant expenditures that CMADC claimed from March 2008 through February 2011. CMADC did not separately account for its section 330 grant expenditures and commingled these expenditures in its accounting system with other operational payments, including payments related to Medicaid, Medicare, Recovery Act, and third-party reimbursements. We therefore were unable to determine which expenditures were attributable to the section 330 grant. Furthermore, CMADC did not maintain personnel activity reports for employees who worked on the grant.

We could not determine whether these claims for reimbursement were allowable because CMADC did not set up its accounting system according to 45 CFR §§ 74.21(b)(1) and (2), which require systems to provide accurate, current, and complete disclosure of financial results and records that identify the source and application of funds for HHS-sponsored activities. In addition, CMADC did not have written procedures for allocating and separately accounting for expenditures including salaries in accordance with the provisions of the applicable Federal cost principles (45 CFR § 74.21(b)(6)).

CMADC officials stated that they were unaware of the Federal accounting system requirements that would ensure that expenses are segregated and therefore attributable to the section 330 grant. Furthermore, they stated that they were unaware that CMADC was required to maintain personnel activity reports for employees who worked on Federal awards.

Expenditures for the Increased Demand for Services Grant

We could not determine the allowability of \$269,523 in IDS grant expenditures that CMADC claimed from March 27, 2009, through March 26, 2011. CMADC did not separately account for its IDS grant expenditures and commingled these expenditures in its accounting system with other operational payments. Specifically, CMADC's general ledger did not have a separate account that identified IDS grant expenditures, so we were unable to determine which expenditures were attributable to the IDS grant. Furthermore, CMADC did not maintain personnel activity reports for employees who worked on the grant as required in 2 CFR part 230, Appendix B, §§ 8.b(2) and 8.m.

We could not determine whether these claims for reimbursement were allowable because CMADC did not set up its accounting system according to 45 CFR §§ 74.21(b)(1) and (2) and the grant terms and conditions, which require systems to provide accurate, current, and complete disclosure of financial results and records that identify the source and application of funds for HHS-sponsored activities and, in the case of Recovery Act funds, require the funds not be pooled. In addition, CMADC did not have written procedures for allocating and separately accounting for expenditures including salaries in accordance with the provisions of the applicable Federal cost principles and the terms and conditions of the award (45 CFR

§ 74.21(b)(6)). CMADC officials stated that they were unaware of the Federal accounting system requirements that would ensure that expenditures are segregated and therefore attributable to this particular grant, as well as the specific Recovery Act requirement that these IDS funds could not be pooled. Furthermore, the officials stated that they were unaware of the requirement to maintain personnel activity reports for employees who worked on Federal awards.

Expenditures for the Capital Improvement Program Grant

We could not determine the allowability of \$575,652 in CIP grant expenditures that CMADC claimed from June 29, 2009, through June 28, 2011. Specifically, CMADC's CIP general ledger account did not have detailed entries supporting that CIP grant expenditures and non-CIP grant funds were commingled, so we were unable to determine which expenditures were attributable to the CIP grant. In addition, where salary expenses were claimed, CMADC did not maintain personnel activity reports for employees who worked on the grant as required in 2 CFR part 230, Appendix B, §§ 8.b(2) and 8.m.

We could not determine whether these claims for reimbursement were allowable because CMADC did not set up its accounting system according to 45 CFR §§ 74.21(b)(1) and (2), which require systems to provide accurate, current, and complete disclosure of financial results and records that identify the source and application of funds for HHS-sponsored activities. In addition, CMADC did not have written procedures for allocating and separately accounting for expenditures including salaries in accordance with the provisions of the applicable Federal cost principles (45 CFR § 74.21(b)(6)). CMADC officials stated that they were unaware both of the accounting requirements and the requirement to maintain personnel activity reports for employees who worked on Federal awards.

RECOMMENDATION

We recommend that HRSA either require CMADC to refund \$2,999,659 to the Federal Government (\$2,154,484 related to section 330 grants, \$269,523 related to the IDS grant, and \$575,652 related to the CIP grant) or work with CMADC to determine whether any of the costs that it claimed against these grants were allowable.

COMMUNITY MEDICAL AND DENTAL CARE, INC., COMMENTS

In written comments on our draft report, CMADC stated that it has been working with HRSA to achieve "financial recovery" and described steps that it has taken to improve its financial ratios. CMADC did not indicate whether it agreed that it (1) had commingled expenditures in its accounting system with other operational payments and (2) had not maintained personnel activity reports for employees who worked on HRSA grants. However, CMADC stated that HRSA never requested CMADC to separately account for expenditures. In addition, CMADC stated that if HRSA requested a detailed allocation of expenditures for any of CMADC's funded projects, CMADC would be able to provide it.

CMADC also provided a technical comment, which we addressed. CMADC's comments appear in their entirety as Appendix A.

OFFICE OF INSPECTOR GENERAL RESPONSE

After reviewing CMADC's comments, we maintain that our findings are valid. The terms and conditions of CMADC's grant awards stipulated that CMADC was required to be in compliance with:

- applicable cost principles, which include the requirements for after-the-fact determinations of employee activity (2 CFR part 230, Appendix B, §§ 8.b(2) and 8.m) and
- administrative requirements, which include the requirements for grantees to provide accurate, current, and complete disclosure of financial results and records that identify the source and application of funds for HHS-sponsored activities (i.e., expenditures for section 330, IDS, and CIP⁵ grants should be segregated and accounted for separately from other operational expenditures) (45 CFR § 74.21(b)(1) and (2); 42 CFR § 51c.112(a)).

Although CMADC contends that it can produce a detailed allocation of expenditures to HRSA, it failed to provide such an allocation to the OIG for the audit period.

HEALTH RESOURCES AND SERVICES ADMINISTRATION COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE

In written comments on our draft report, HRSA agreed with our recommendation that it require CMADC to refund \$2,999,659 to the Federal Government or work with CMADC to determine whether any of the costs that CMADC claimed were allowable. HRSA also stated that CMADC is no longer a recipient of section 330 grant funds.

In our draft report, we recommended that HRSA: (1) impose special award conditions to address CMADC's financial performance, (2) ensure that CMADC improves its financial management system, (3) ensure that CMADC develops policies and procedures for determining the allowability of expenditures, and (4) educate CMADC officials on Federal requirements for supporting costs. However, since CMADC is no longer a funded section 330 grantee, we are no longer making these recommendations.

HRSA's comments are included in their entirety as Appendix B.

⁵ Although CMADC maintained a separate account for the CIP grant, the account included both CIP and non-CIP expenditures.

APPENDIXES

APPENDIX A: COMMUNITY MEDICAL AND DENTAL CARE, INC., COMMENTS



**EXECUTIVE OFFICE
COMMUNITY MEDICAL & DENTAL CARE, INC.**

June 21, 2012

James P. Edert
Regional Inspector General for Audit Services
Office of the Inspector General
Region II
26 Federal Plaza, Room 3900
New York, NY 10278

RE: Report Number: A-02-11-02011

Dear Mr. Edert:

Upon review of the above mentioned report, please consider our comments stated below:

- Each year that CMADC was awarded a 330 grant, HRSA, the funding agency, provided a Notice of Grant Award (NGA) stating CMADC's agency budget for its entire scope of services, and listed all the sources of funding to cover the entire budget. The 330 grant was listed as one source. There was no detail on the NGA (nor was it requested in any grant application) of specific expenses being allocated to the 330 grant. HRSA representatives never requested or required our health center to separate expenses by funding source. We had several site visits and several T&TA consultants over the years and it was never requested of us. Our certified audits have been submitted to HRSA and never included allocation of expenses by funding source. HRSA never criticized this and never requested such allocations.
- HRSA project officers and representatives provided continuous guidance on all aspects of the program and never mentioned such a requirement.
- When we were instructed to open a separate checking account in which HRSA grant funding will be directly deposited, we were specifically instructed by our project officer who served at that time, not to use the grant

Mendel Hoffman
President / CEO
Joel Allen, M.D. FACOG
Chief Medical Officer
Dr. G. Benyaminov DDS
Chief Dental Officer
Chana Amsel
Chief Fiscal Officer
Shandy Milner
Chief Operating Officer

40 Robert Pitt Drive
Monsey, NY 10952
(845) 352-6800 ext. 3812
Fax (845) 425-1228
mhoffman@cmadc.com

PRIMARY CARE

Internal Medicine
Pediatrics
Family Medicine
Adolescent Medicine
Allergy/Immunology
Dermatology
Gastroenterology
Nutrition Counseling
Ophthalmology
Podiatry
Urology
Endocrinology
Speech Therapy

WOMAN'S CARE CENTRE

Obstetrics/Gynecology

DENTAL DEPARTMENT

General Dentistry
Oral Surgery
Pediatric Dentistry

PROJECT OHR

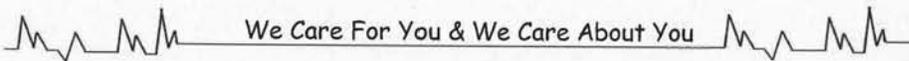
DEPT OF BEHAVIORAL HEALTH

Adolescent Counseling
Family Counseling
Individual Counseling
Psychiatric Services

CASE MANAGEMENT

Medicaid, Medicare,
& Medicaid HMO
Entitlement & Enrollment
Medical Referrals
Educational Screening Programs
Social & Human Services
Housing & Employment
Youth & Senior Citizens Program

Licensed By
New York State Department
of Health & Designated
as a Federally
Qualified Health Center



Monsey Family Medical Center + 40 Robert Pitt Drive Monsey, NY 10952 (845) 352-6800
Ben Gilman Spring Valley Family Medical Center + 175 Route 59 Spring Valley, NY 10977 (845) 426-5800
Dental Care on Wheels + (845) 352-6800

James P. Edert, Office of Inspector General
A-02-11-02011

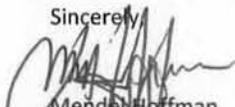
June 21, 2012
Page 2

account for expenditures, but rather to move the directly deposited funds into our operations account and make the disbursements of the funds from our operating account. We followed those instructions.

- Only in the last few months of our receiving grant funding did the HRSA agency request support of our drawdown request in the form of expenditures and related backup, which we did provide. Prior to that, in all the years of our receiving funding, we did our drawdown requests without any supporting information. We've always been compliant with HRSA's requests and followed their guidelines.
- If HRSA, the funding agency, would request today a detailed allocation of expenditures for any of our funded grants (330, IDS, CIP), we would be able to provide it.
- Related to the financial ratios reviewed, CMADC was underfunded when opening the Spring Valley site and suffered losses the first few years of operating that site because the extremely underserved population served was not accustomed to seeking medical attention for preventative and chronic care. It took a few years of patient education and outreach before we reached a satisfactory patient level to financially sustain the organization. We've been working closely with HRSA to achieve financial recovery and are showing improvement. Over the years we've greatly impacted and improved the health and care of the population and built a trust with the patients who have come to rely on our services. In the years 2008 thru 2011 we've steadily increased our visits from 53,797 in 2008 to 63,813 in 2009, and to 71,064 in 2010 and to 77,215 in 2011. We've provided sliding fee discounts to qualifying individuals and served the target population regardless of ability to pay.
- We've made efforts to improve the financial ratios by upgrading our billing software and enhancing our collection efforts, reducing expenses where possible, closely monitoring productivity and profitability of providers, and augmenting our outreach efforts. We've also taken steps to achieve meaningful use and become a patient center medical home which will increase our revenue and thereby improve our financial ratios.
- On page 2 of the report, in footnote number one, the grant period of the CIP grant ended on March 31, 2012, which is an extension of the original period ending June 28, 2011.

If you need any further information, please do not hesitate to call me.

Sincerely,



Mendenhoffman
President CEO

**APPENDIX B: HEALTH RESOURCES AND SERVICES
ADMINISTRATION COMMENTS**



DEPARTMENT OF HEALTH & HUMAN SERVICES

Health Resources and Services
Administration

Rockville, MD 20857

SEP 25 2012

TO: Inspector General

FROM: Administrator

SUBJECT: OIG Draft Report: "Community Medical and Dental Care, Inc., Did Not Meet Select Financial Performance Measures and Claimed Unallowable Federal Grant Expenditures" (A-02-11-02001)

Attached is the Health Resources and Services Administration's (HRSA) response to the OIG's draft report, "Community Medical and Dental Care, Inc., Did Not Meet Select Financial Performance Measures and Claimed Unallowable Federal Grant Expenditures" (A-02-11-02001). If you have any questions, please contact Sandy Seaton in HRSA's Office of Federal Assistance Management at (301) 443-2432.

Mary K. Wakefield, Ph.D., R.N.

Attachment

**Health Resources and Services Administration's Comments on the OIG Draft Report –
“Community Medical and Dental Care, Inc., Did Not Meet Select Financial Performance
Measures and Claimed Unallowable Federal Grant Expenditures”
(A-02-11-02001)**

The Health Resources and Services Administration (HRSA) appreciates the opportunity to respond to the above draft report. HRSA's response to the Office of Inspector General (OIG) draft recommendations are as follows:

OIG Recommendation to HRSA:

We recommend that HRSA impose special award conditions to address shortcomings in CMADC's days of expenses covered by cash, current and cash ratios, working capital, net assets, accounts receivable collections, and average payment period.

HRSA Response:

Community Medical and Dental Care, Inc., (CMADC) is no longer a funded section 330 grantee; therefore, HRSA is unable to implement this recommendation.

OIG Recommendation to HRSA:

We recommend that HRSA either require CMADC to refund \$2,999,659 to the Federal Government (\$2,154,484 related to section 330 grants, \$269,523 related to the IDS grant, and \$575,652 related to the CIP grant) or work with CMADC to determine whether any of the costs that it claimed against these grants were allowable.

HRSA Response:

HRSA concurs with the OIG's recommendation and upon receipt of the final report, HRSA will work with CMADC to determine the amount of unallowable costs charged against the HRSA grants and the amount to be refunded to HRSA.

OIG Recommendation to HRSA:

We recommend that HRSA ensure that CMADC (1) develops a financial management system that provides for the accurate, current, and complete disclosure of the financial results of each HHS-sponsored project or program and (2) tracks and accounts for each grant's expenditures separately from other operating expenditures.

HRSA Response:

CMADC is no longer a funded section 330 grantee; therefore, HRSA is unable to implement this recommendation.

OIG Recommendation to HRSA:

We recommend that HRSA ensure that CMADC develops policies and procedures for determining the allowability of expenditures.

HRSA Response:

CMADC is no longer a funded section 330 grantee; therefore, HRSA is unable to implement this recommendation.

OIG Recommendation to HRSA:

We recommend that HRSA educate CMADC officials on Federal requirements for supporting salaries and wages and ensure that CMADC maintains personnel activity reports for each employee who works on Federal awards.

HRSA Response:

CMADC is no longer a funded section 330 grantee; therefore, HRSA is unable to implement this recommendation.