

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**MOUNT VERNON
NEIGHBORHOOD HEALTH CENTER,
INC., 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

April 2013
A-02-11-02013

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.

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.

Mount Vernon Neighborhood Health Center, Inc. (Mount Vernon) is a nonprofit organization that operates three health centers in Westchester County, New York. Mount Vernon provides medical and dental services and is funded primarily by patient service revenues, State and local contracts, and Federal grants.

In 2009, HRSA awarded Mount Vernon approximately \$4.2 million in Recovery Act funds. Approximately \$2.5 million of this amount was awarded under a CIP grant to upgrade Mount Vernon's Practice Management System and medical equipment. Approximately \$1.7 million was awarded under an IDS grant to sustain Mount Vernon's workforce and hire additional staff, thereby increasing access to health care within Mount Vernon's service area. In addition to these funds, HRSA also provides Mount Vernon with approximately \$6 million per year in section 330 grant funds.

Mount Vernon must 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.

OBJECTIVE

Our objective was to determine whether Mount Vernon's Recovery Act grant expenditures were allowable.

SUMMARY OF FINDINGS

Of the \$4,186,294 in costs that we reviewed, Mount Vernon claimed \$2,534,218 in costs that were allowable, \$42,030 in costs that were unallowable, and \$1,610,046 in costs for which we could not determine allowability.

Mount Vernon claimed these unallowable expenditures because it misinterpreted the grant award terms and conditions, and claimed unallocable and duplicate costs.

We could not determine the allowability of the remaining \$1,610,046 claimed by Mount Vernon because it did not properly maintain personnel activity reports for employees charged to the IDS grant. Although Mount Vernon maintained personnel activity reports for employees whom it stated worked on the IDS grant, the employees' personnel activity reports reflected that the employees worked entirely on another HRSA grant (the section 330 grant). This occurred because, according to Mount Vernon officials, HRSA told them that they did not need to separately identify the actual activity for each employee that worked on the IDS grant.

In addition, Mount Vernon drew down \$249,162 in CIP grant funds for which it did not have an immediate cash need. We did not determine the \$249,162 to be unallowable because Mount Vernon expended the grant funds for allowable expenditures. However, we are reporting on the matter because Mount Vernon did not follow its existing policies and procedures for drawing down Federal funds.

RECOMMENDATIONS

We recommend that HRSA:

- require Mount Vernon to refund \$42,030 to the Federal Government (\$3,136 related to the IDS grant, and \$38,894 related to the CIP grant);
- either require Mount Vernon to refund \$1,610,046 in IDS grant funds to the Federal Government or work with Mount Vernon to determine whether any of these costs claimed against the grant were allowable;
- educate Mount Vernon officials on Federal requirements for the proper period to charge costs and supporting salaries and wages and ensure that Mount Vernon maintains personnel activity reports for each employee who works on Federal awards; and
- ensure that Mount Vernon adheres to its policies and procedures for drawing down Federal funds.

MOUNT VERNON NEIGHBORHOOD HEALTH CENTER, INC., COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE

In written comments on our initial draft report, Mount Vernon disagreed with several of our findings on the basis of guidance about prior approval of grant costs that, according to Mount Vernon officials, it had received from HRSA. In its comments, Mount Vernon also described steps that it has taken to ensure that its time-and-effort reporting accurately reflects the grant to which each of its employees is assigned. Mount Vernon provided documentation to substantiate its efforts, including its revised policies and procedures for time-and-effort reporting. After reviewing Mount Vernon's comments and consulting with HRSA officials, we removed one finding and reduced the amount of the corresponding recommended disallowance from \$148,878

to \$38,894. HRSA officials confirmed that Mount Vernon did not need prior written approval for \$109,984 of equipment, building improvement, and information technology costs that Mount Vernon had charged to its CIP grant. We maintain that our remaining findings and recommendations in this report are valid.

HEALTH RESOURCES AND SERVICES ADMINISTRATION COMMENTS

In written comments on our second draft report—which included Mount Vernon’s written comments on our initial draft report—HRSA concurred with our recommendations. Specifically, HRSA stated that it will work with Mount Vernon to determine the amount of unallowable costs and require Mount Vernon to refund those amounts to the Federal Government. HRSA also stated that it will work with Mount Vernon to ensure that Mount Vernon complies with Federal requirements for charging costs, for supporting salaries and wages, and for maintaining personnel activity reports for each employee who works on Federal awards. Lastly, HRSA stated that it will work with Mount Vernon to ensure that Mount Vernon complies with its own policies and procedures for drawing down Federal funds.

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INTRODUCTION

BACKGROUND

Health Center Program

The Health Centers Consolidation Act of 1996 (P.L. No. 104-299) consolidated the Health Center Program under section 330 of the Public Health Service Act (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.

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.

Mount Vernon Neighborhood Health Center, Inc.

Mount Vernon Neighborhood Health Center, Inc. (Mount Vernon) is a nonprofit organization that operates three health centers in Westchester County, New York. Mount Vernon provides medical and dental services and is funded primarily by patient service revenues, State and local contracts, and Federal grants.

In 2009, HRSA awarded Mount Vernon approximately \$4.2 million in Recovery Act funds. Approximately \$2.5 million of this amount was awarded under a CIP grant to upgrade Mount Vernon's Practice Management System and medical equipment.¹ Approximately \$1.7 million was awarded under an IDS grant to sustain Mount Vernon's workforce and hire additional staff, thereby increasing access to health care within Mount Vernon's service area.² In addition to these funds, HRSA also provides Mount Vernon with approximately \$6 million per year in section 330 grant funds.

¹ Mount Vernon's Practice Management System is used to manage patient appointments, maintain patient financial information, and record patient clinical information.

² The grant budget periods covered by our audit were: March 27, 2009, through March 26, 2011, for the IDS grant funds; and June 29, 2009, through June 28, 2011, for the CIP grant funds.

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, Mount Vernon must comply with Federal cost principles in 2 CFR part 230, *Cost Principles for Non-Profit Organizations* (Office of Management and Budget Circular A-122), incorporated by reference at 45 CFR § 74.27(a). These cost principles require that grant expenditures submitted for Federal reimbursement be reasonable, allocable, and otherwise allowable. The HHS awarding agency may include additional requirements that are considered necessary to attain the award's objectives.

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)). Grantees also must have written procedures for determining the allowability of expenditures in accordance with applicable Federal cost principles and the terms and conditions of the award (45 CFR § 74.21(b)(6)).

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

Our objective was to determine whether Mount Vernon's Recovery Act grant expenditures were allowable.

Scope

We conducted a review of Mount Vernon's \$4,186,294 in IDS and CIP grants expenditures for the period March 27, 2009, through June 28, 2011.

We performed our fieldwork at Mount Vernon's administrative office in Mount Vernon, New York, during September 2011.

Methodology

To accomplish our objective, we:

- reviewed relevant Federal laws, regulations, and guidance;
- reviewed Mount Vernon's HRSA grant applications and supporting documentation;
- interviewed Mount Vernon personnel to gain an understanding of Mount Vernon's accounting system, internal controls over Federal expenditures, and IDS and CIP grant activities;

- reviewed Mount Vernon’s policies and procedures for accounting for Recovery Act funds, time-and-effort certification, payroll processing, documenting transactions, and drawing down Federal funds;
- reviewed Mount Vernon’s independent auditor’s reports and related financial statements for fiscal years 2009 and 2010;³ and
- reviewed expenditures claimed on Mount Vernon’s IDS and CIP grants for allowability.

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 RECOMMENDATIONS

Of the \$4,186,294 in costs that we reviewed, Mount Vernon claimed \$2,534,218 in costs that were allowable, \$42,030 in costs that were unallowable, and \$1,610,046 in costs for which we could not determine allowability.

Mount Vernon claimed the \$42,030 in unallowable expenditures because its officials misinterpreted the grant award terms and conditions and claimed unallocable and duplicate costs.

We could not determine the allowability of the remaining \$1,610,046 claimed by Mount Vernon because it did not properly maintain personnel activity reports for employees charged to the IDS grant. Although Mount Vernon maintained personnel activity reports for employees whom it stated worked on the IDS grant, the employees’ personnel activity reports reflected that the employees worked entirely on another HRSA grant (the section 330 grant). According to Mount Vernon officials, HRSA told them that they did not need to separately identify the actual activity for each employee that worked on the IDS grant; therefore, they did not ensure that the employees’ reports reflected actual work.

In addition, Mount Vernon drew down \$249,162 in CIP grant funds for which it did not have an immediate cash need. We did not determine the \$249,162 to be unallowable because Mount Vernon expended the grant funds for allowable expenditures. However, we are reporting on the matter because Mount Vernon did not follow its existing policies and procedures for drawing down Federal funds.

³ We did not review Mount Vernon’s independent auditor’s report for fiscal year 2011 because the fiscal year ended after our audit period.

UNALLOWABLE EXPENDITURES CLAIMED FOR FEDERAL REIMBURSEMENT

Expenditures for the Increased Demand for Services Grant

Mount Vernon claimed unallowable IDS grant expenditures for supplies and cleaning services totaling \$3,136. In addition, we could not determine the allowability of \$1,610,046 charged to the IDS grant because Mount Vernon did not properly maintain personnel activity reports for employees charged to the grant.

Unapproved Supply Costs

Pursuant to 2 CFR part 230, Appendix B, § 36, preaward costs are allowable only to the extent that they would have been allowable if incurred after the date of the award and only with the written approval of the awarding agency.

Mount Vernon charged \$2,597 in supply costs to the IDS grant for costs incurred prior to the start of the grant period. Specifically, Mount Vernon made purchases between January 10 and March 21, 2009; however, the start of the IDS grant period was March 27, 2009. Although the supply costs may otherwise be allowable, HRSA did not give written approval. Therefore, the \$2,597 claimed was not allowable for Federal reimbursement. This occurred because Mount Vernon officials misinterpreted the terms and conditions of the CIP grant and mistakenly thought that those terms and conditions constituted HRSA approval of preaward costs for the CIP and IDS grants. Mount Vernon officials stated that they thought that the grant award terms and conditions constituted HRSA approval and therefore did not require a separate request for HRSA approval as required by the Federal cost principles.

Unallocable Cleaning Services Costs

Pursuant to 2 CFR part 230, Appendix A, § A.4, a cost is allocable to a Federal award if it is incurred specifically for the award.

Mount Vernon charged \$539 in lab coat cleaning services costs to the IDS grant that were unallocable. Specifically, Mount Vernon incurred these costs for employees who did not work on the IDS grant. Therefore, the \$539 claimed was not allowable for Federal reimbursement because the services incurred were not specifically used for the award.

Inadequately Documented Salary and Fringe Benefit Costs

Pursuant to 2 CFR part 230, Appendix B, §§ 8.b(2) and 8.m, for salaries and wages to be allowable for Federal reimbursement, grantees must maintain personnel activity reports of the actual activity for each employee working on 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.

We could not determine the allowability of \$1,610,046 charged to the IDS grant because Mount Vernon did not properly maintain personnel activity reports for employees charged to the grant. Although Mount Vernon maintained personnel activity reports for employees whom it stated worked on the IDS grant, the employees' personnel activity reports stated that the employees worked entirely on the section 330 grant. Therefore, we could not determine whether the \$1,610,046 claimed was allowable for Federal reimbursement. This occurred because, according to Mount Vernon officials, HRSA told them that a separate after-the-fact determination to the IDS grant on employee personnel activity reports was unnecessary and that salaries charged to the IDS grant could be reflected on the section 330 grant instead.

Expenditures for the Capital Improvement Program Grant

Mount Vernon claimed unallowable CIP grant expenditures totaling \$38,894. Mount Vernon claimed \$21,938 for costs that were not allocable to the CIP grant and \$16,956 for preaward costs incurred prior to the start of the grant period without requesting HRSA approval.

Duplicate and Unallocable Information Technology, Supply, and Environmental Assessment Costs

Pursuant to 2 CFR part 230, Appendix A, § A.4, a cost is allocable to a Federal award if it is incurred specifically for the award. Pursuant to 2 CFR part 230, Appendix A, § A.2, costs must be adequately documented and must not be included as a cost of any other federally financed program in either the current or a prior period to be allowable under an award.

Mount Vernon charged \$21,938 to the CIP grant for services for which there was no benefit received.

Specifically, Mount Vernon charged \$13,051 to the CIP grant two times for the same information technology service from the same vendor. Therefore, the duplicate payment of \$13,051 was not allowable for Federal reimbursement.

Mount Vernon charged \$4,926 to the CIP grant for supply costs that had also been charged to the IDS grant. Because these costs were charged to the IDS grant, the amount claimed under the CIP grant was not allowable for Federal reimbursement.⁴

Mount Vernon charged \$3,961 to the CIP grant for an environmental assessment that was not incurred specifically for the CIP grant. The cost was incurred for a construction project at a health center funded by HRSA's Facility Improvement Program grant. Therefore, the \$3,961 claimed on the CIP grant was unallowable for Federal reimbursement.

⁴ We determined that the IDS grant, rather than the CIP grant, was the proper grant for the supply costs to be charged to because the costs were included in the IDS grant budget.

Unapproved Information Technology, Supply, and Furniture Costs

Pursuant to 2 CFR part 230, Appendix B, § 36, preaward costs are allowable only to the extent that they would have been allowable if incurred after the date of the award and only with the written approval of the awarding agency.

Mount Vernon charged \$16,956 to the CIP grant for information technology (\$9,724), supply (\$6,377), and furniture (\$855) costs incurred prior to the start of the grant period without requesting HRSA approval. Specifically, Mount Vernon incurred these costs between April 11, and June 25, 2009; however, the grant period did not start until June 29, 2009. Although the supply costs may otherwise be allowable, HRSA did not give written approval. Therefore, the \$16,956 claimed was not allowable for Federal reimbursement. Mount Vernon officials stated that they thought that the grant award terms and conditions constituted HRSA approval and therefore did not require a separate request for HRSA approval.

DRAWDOWNS MADE WITHOUT AN IMMEDIATE CASH NEED

Pursuant to 45 CFR § 74.22(b)(2), cash advances to grant recipients shall be limited to the minimum amounts needed and be timed to be in accordance with the actual, immediate cash requirements of the recipient organization in carrying out the purpose of the approved program or project.

Mount Vernon drew down CIP grant funds from HHS's Payment Management System totaling \$249,162 for which there was not an immediate cash need of the organization to carry out the project. Mount Vernon drew down the funds between August 2009 and June 2011; however, it did not expend the funds until October 2011. We did not determine the \$249,162 to be unallowable because Mount Vernon expended the grant funds for allowable expenditures. However, we are reporting on the matter because drawing down funds without immediately expending them can have a negative impact on the integrity of the program and the proper reporting of program expenditures.

The untimely drawdowns occurred because Mount Vernon did not follow its procedures related to limiting drawdowns to immediate payroll needs and outstanding vendor invoices. Specifically, Mount Vernon's policy stated "drawdowns will be used to cover payroll and outstanding vendor invoices ... and will be immediately dispersed for expenses already incurred, so as not to have any Federal funds in account at any time." Mount Vernon officials explained that the CIP grant was ending and that they withheld payment to a vendor until all work was completed. Mount Vernon officials stated that they deviated from their written policy because HRSA gave them permission to draw down the funds early.

RECOMMENDATIONS

We recommend that HRSA:

- require Mount Vernon to refund \$42,030 to the Federal Government (\$3,136 related to the IDS grant, and \$38,894 related to the CIP grant);

- either require Mount Vernon to refund \$1,610,046 in IDS grant funds to the Federal Government or work with Mount Vernon to determine whether any of these costs claimed against the grant were allowable;
- educate Mount Vernon officials on Federal requirements for the proper period to charge costs and supporting salaries and wages and ensure that Mount Vernon maintains personnel activity reports for each employee who works on Federal awards; and
- ensure that Mount Vernon adheres to its policies and procedures for drawing down Federal funds.

MOUNT VERNON NEIGHBORHOOD HEALTH CENTER, INC., COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE

In written comments on our initial draft report, Mount Vernon disagreed with several of our findings on the basis of guidance about prior approval of grant costs that, according to Mount Vernon officials, it had received from HRSA. In its comments, Mount Vernon also described steps that it has taken to ensure that its time-and-effort reporting accurately reflects the grant to which each of its employees is assigned. Mount Vernon provided documentation to substantiate its efforts, including its revised policies and procedures for time-and-effort reporting.

After reviewing Mount Vernon's comments and consulting with HRSA officials, we removed one finding and reduced the amount of the corresponding recommended disallowance from \$148,878 to \$38,894. HRSA officials confirmed that Mount Vernon did not need prior written approval for \$109,984 of equipment, building improvement, and information technology costs that Mount Vernon had charged to its CIP grant. We maintain that our remaining findings and recommendations in this report are valid. Mount Vernon's written comments are included as Appendix A.⁵

Expenditures for the Increased Demand for Services Grant

Mount Vernon Comments

Mount Vernon stated that it believed it was permitted to incur costs up to 90 days prior to the start of the grant award and that it claimed \$2,597 for supplies only after contacting its HRSA project officer to confirm that the expenses were allowable. Mount Vernon also stated that it claimed \$539 to have lab coats cleaned and maintained for all of its employees who worked on the grant, and that it assumed that this was an allowable cost. Finally, for \$1,610,046 in salaries and wages that it charged to the IDS grant, Mount Vernon stated that IDS funds were mislabeled as section 330 grant funds and that it did not know that the activity of each employee who worked on the IDS grant should have been separately identified. As a result, personnel activity reports reflected that employees worked entirely on the section 330 grant. Mount Vernon further

⁵ The additional documents that Mount Vernon provided were too voluminous to include in this report.

stated that it has revised its policies to ensure that time-and-effort reporting accurately reflects the grant to which an employee is assigned.

Office of Inspector General Response

After reviewing Mount Vernon's response and consulting with HRSA officials, we maintain that our findings and recommendations are valid. HRSA officials told us that prior written approval for the \$2,597 in supplies had not been granted. Regarding lab coat cleaning costs (\$539), we questioned only those costs associated with employees whose salaries were not charged to the IDS grant.

Expenditures for the Capital Improvement Program Grant

Mount Vernon Comments

Mount Vernon stated that it believed it was permitted to incur costs up to 90 days prior to the start of the grant award and contended that it claimed \$16,956 for information technology, supplies, and furniture costs only after contacting its HRSA project officer to confirm that the expenses were allowable. Mount Vernon also stated that it addressed the issues that led to \$21,938 in unallocable costs being charged to the CIP grant (\$13,051 dual reimbursement, \$4,926 charged to both the IDS and CIP grants, and \$3,961 incorrectly charged to the CIP grant). These costs totaled \$38,894.

Office of Inspector General Response

After reviewing Mount Vernon's response and consulting with HRSA officials, we maintain that our findings and recommendations are valid. Specifically, for the \$38,894 charged to the CIP grant, (1) Mount Vernon agreed that it had charged \$21,938 in unallocable costs and (2) HRSA officials told us that Mount Vernon *was* required to get prior written approval for \$16,956 in costs that it claimed prior to the start of the grant award.

Mount Vernon Comments

Mount Vernon stated that it had discussed with HRSA officials the \$109,984 related to equipment and building improvement costs (\$102,910), and information technology costs (\$7,074), which we had questioned in our initial draft report, and that the funds used to pay for these costs came from other under-budget cost categories.

Office of Inspector General Response

After reviewing Mount Vernon's comments and consulting with HRSA officials, we removed one finding and reduced the amount of the corresponding recommended disallowance from \$148,878 to \$38,894. HRSA officials confirmed that Mount Vernon did not need prior written approval for \$109,984 of equipment, building improvement, and information technology costs that Mount Vernon had charged to its CIP grant. According to the terms and conditions of the award, grantees are not required to seek prior approval for rebudgeting that is not considered

significant. Here, cumulative transfers did not exceed \$250,000 and the purchase of a new unit of equipment did not exceed \$25,000.

Drawdowns Made Without an Immediate Cash Need

Mount Vernon Comments

Mount Vernon stated that it received permission from HRSA to draw down \$249,162 in funds without an immediate cash need because the funds were expended and the funds were drawn down toward the end of the grant period.

Office of Inspector General Response

After reviewing Mount Vernon's response and consulting with HRSA officials, we maintain that our finding is valid. HRSA officials told us that HRSA did not grant Mount Vernon approval to deviate from grant requirements.

HEALTH RESOURCES AND SERVICES ADMINISTRATION COMMENTS

In written comments on our second draft report—which included Mount Vernon's written comments on our initial draft report—HRSA concurred with our recommendations. Specifically, HRSA stated that it will work with Mount Vernon to determine the amount of unallowable costs and require Mount Vernon to refund those amounts to the Federal Government. HRSA also stated that it will work with Mount Vernon to ensure that Mount Vernon complies with Federal requirements for charging costs, for supporting salaries and wages, and for maintaining personnel activity reports for each employee who works on Federal awards. Lastly, HRSA stated that it will work with Mount Vernon to ensure that Mount Vernon complies with its own policies and procedures for drawing down Federal funds. HRSA's comments are included in their entirety as Appendix B.

APPENDIXES

**APPENDIX A: MOUNT VERNON NEIGHBORHOOD HEALTH CENTER, INC.,
COMMENTS**



Mount Vernon Neighborhood Health Center, Inc.

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October 1, 2012

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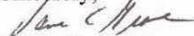
Re: Report Number A-02-11-02013

Dear Mr. Edert:

This letter is in response to your letter dated September 25, 2012 (see attached). Per the instructions in your letter we sent our responses to your report to [REDACTED] on September 28, 2012. [REDACTED] confirmed receipt of our response and instructed me to send a copy, of our response to your office, therefore enclosed please find the Mount Vernon Neighborhood Health Centers, INC. response to "Claimed Unallowable Federal Grant Expenditures" report. †

If there is any additional information you require please feel free to contact us at any time.

Sincerely,


Vance E. Granby
Chief Financial Officer



107 West Fourth Street • Mount Vernon, New York 10550 • (914) 699-7200 • Fax (914) 699-0837

† Office of Inspector General note: The deleted text has been redacted because it contained personally identifiable information.

Mount Vernon Neighborhood Health Center, Inc.
Response to Office of Inspector General on
OIG Findings

Response to Office of Inspector General **On OIG Findings**

Mount Vernon charged \$2,597 in supply costs to the IDS grant for costs incurred prior to the start of the grant period. Specifically, Mount Vernon made purchases between January 10 and March 21, 2009; however, the start of the IDS grant period was March 27, 2009. Although the supply costs may otherwise be allowable, HRSA did not give written approval. Therefore, the \$2,597 claimed was not allowable for Federal reimbursement. This occurred because Mount Vernon officials misinterpreted the terms and conditions of the CIP grant and mistakenly thought that those terms and conditions constituted HRSA approval of preaward costs for the CIP and IDS grants. Mount Vernon officials stated that they thought that the grant award terms and conditions constituted HRSA approval and therefore did not require a separate request for HRSA approval as required by the Federal cost principles.

IDS

Expenditures made prior to the grant period.

The funding period began on March 27th, 2009 and it was our understanding based on the 'Notice of Grant Award' that we were permitted to incur pre award costs up to 90 calendar days prior to the award. Therefore, after contacting our Project Officer to confirm that the expense was allowable we claimed the funds.

We could not determine the allow ability of \$1,610,046 charged to the IDS grant because Mount Vernon did not properly maintain personnel activity reports for employees charged to the grant. Although Mount Vernon maintained personnel activity reports for employees whom it stated worked on the IDS grant, the employees' personnel activity reports stated that the employees worked entirely on the Section 330 grant. Therefore, we could not determine whether the \$1,610,046 claimed was allowable for Federal reimbursement. This occurred because, according to Mount Vernon officials, HRSA told them that a separate after-the-fact determination to the IDS grant on employee personnel activity reports was unnecessary and that salaries charged to the IDS grant could be reflected on the Section 330 grant instead.

Allow ability of \$1,610,046

Mount Vernon Neighborhood Health Center, Inc. hired staff based on the availability of the grant received. There is documentation of staff activity for the employment period. The IDS funds were mislabeled as 330 funds not specifically IDS funds since this was all HRSA funding. Therefore, the personnel activity reports reflected that the employees worked entirely on the 330 Grant since these employees worked on the Health Center Program. We did not know that the IDS funding should have separately identified the activity of each employee who worked on the IDS grant. We have since revised our policies, and provisions to ensure time and effort reporting accurately reflects the grant/cost center to which the employee is assigned.

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Monitoring activities have been implemented to ensure that the policy requirements are being met. Employees are required to sign the Time and Effort Report/Cost Center to which the employee is assigned. These forms are reviewed bi-weekly by Chief Financial Officer or designee. (Attachment Time and Effort Policy). In addition all financial accounting clearly identifies funding source.

Mount Vernon drew down CIP grant funds from HHS's Payment Management System totaling \$249,162 for which there was not an immediate cash need of the organization to carry out the project. Mount Vernon drew down the funds between August 2009 and June 2011; however, it did not expend the funds until October 2011. We did not determine the \$249,162 to be unallowable because Mount Vernon expended the grant funds for allowable expenditures. However, we are reporting on the matter because drawing down funds without immediately expending them can have a negative impact on the integrity of the program and the proper reporting of program expenditures.

The untimely drawdowns occurred because Mount Vernon did not follow its procedures related to limiting drawdowns to immediate payroll needs and outstanding vendor invoices. Specifically, Mount Vernon's policy stated "drawdowns will be used to cover payroll and outstanding vendor invoices. . . and will be immediately dispersed for expenses already incurred, so as not to have any Federal funds in account at any time." Mount Vernon Officials explained that the CIP grant was ending and that they withheld payment to a vendor until all work was completed. Mount Vernon officials stated that they deviated from their written policy because HRSA gave them permission to draw down the funds early.

CIP Grant Funds

Draw down of \$249,162.00

The drawdown of the \$249,162 from funds expended to satisfy the contract requirements with our IT/EHR vendor. There was telephone discussion between the Project Officer and Mount Vernon Senior Staff concerning the drawdown of these funds. We were advised that since these funds were expended we could draw down the funds since we were at the end of the grant period. We did not wish to pay the vendor at that time since there were incomplete deliverables that would have been completed within a short period of time.

Since we were not in the habit of requesting a written response from our Project Officer on advice requested we did not get the request response in writing. However, there were several staff in the room listening to the call on speaker phone.

Mount Vernon charged \$16,956 to the CIP grant for information technology (\$9,724, supply (\$6,377), and furniture (\$855) costs incurred prior to the start of the grant period without requesting HRSA approval. Specifically, Mount Vernon incurred these costs between April 11, and June 25, 2009; however, the grant period did not start until June 29, 2009. Although the supply costs may otherwise be allowable, HRSA did not give written approval. Therefore, the \$16,956 claimed was not allowable for Federal reimbursement. Mount Vernon officials stated that they thought that the

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grant award terms and conditions constituted HRSA approval and therefore did not require a separate request for HRSA approval.

Expenditures that exceeded the approved budget. \$ 102,910

Regarding the first item on your list Network Infrastructure there had been a change and the budgeted amount was \$500,000. In addition, we had requested to use an additional \$40,000 that was budgeted for embosser's machines and addressographs machines to be transferred to network infrastructure since we plan to implement EHR (Electronic Medical Records) there would no longer be a need for these machines.

In reference to the above and the other items in this category, we had brought this to the attention of our HRSA Grants Managers, specifically that we had savings on some of the budgeted items and would be over on other. However, we were advised that this would not be a problem as long as the overage did not exceed 10% of the grant that no prior approval was necessary.

Expenditures made prior to the grant period. \$16,956

The funding period began on June 29, 2009 and it was our understanding as stated previously, that we were allowed to incur reimbursable expenses up to ninety days prior to the start date of the grant period.

Mount Vernon charged \$21,938 to the CIP grant for services for which there was no benefit

Specific items in question

- 1) \$13,051 was incorrectly reimbursed twice, we have reinforced our Accounting Policies with staff to ensure no further occurrence of this nature.
- 2) \$4,926 Supplies were charged to both the CIP and IDS grants. we have reinforced our Accounting Policies with staff to ensure that all items are correctly charged to the appropriate cost center.
- 3) \$3,961 was charged for an environmental assessment which should have been charged to our Facilities Improvement Grant, this amount has subsequently been reclassified and charged to the appropriate funding source.

Mount Vernon charged \$3,196 unallowable supplies and cleaning services.

All the providers on this grant were provided lab coats which the Center paid to have cleaned and maintained, \$539. It is our assumption that this was an allowable cost in the grant. The balance of \$2,657 for supplies is the proportionate share of supplies allocated to those areas covered under the grant.

Mount Vernon charged \$7,074 to CIP for information technology improvement costs.

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These cost were related to the overall implementation of the Network Infrastructure, which included necessary wiring, and upgrades. Since there were cost savings in other categories we felt this cost was appropriate.

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



DEPARTMENT OF HEALTH & HUMAN SERVICES

Health Resources and Services
Administration

Rockville, MD 20857

FEB 11 2013

TO: Inspector General
FROM: Administrator
SUBJECT: OIG Draft Report: "Mount Vernon Neighborhood Health Center, Inc., Claimed Unallowable Federal Grant Expenditures" (A-02-11-02013)

Attached is the Health Resources and Services Administration's (HRSA) response to the OIG's draft report, "Mount Vernon Neighborhood Health Center, Inc., Claimed Unallowable Federal Grant Expenditures" (A-02-11-02013). If you have any questions, please contact Sandy Seaton in HRSA's Office of Federal Assistance Management at (301) 443-2432.

A handwritten signature in cursive script, appearing to read "Mary K. Wakefield".

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

Attachment

**Health Resources and Services Administration's Comments on the OIG Draft Report –
"Mount Vernon Neighborhood Health Center, Inc., Claimed Unallowable Federal Grant
Expenditures" (A-02-11-02013)**

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) recommendations are as follows:

OIG Recommendation:

We recommend that HRSA ensure that Mount Vernon refunds \$42,030 to the Federal Government (\$3,136 related to the IDS grant and \$38,894 related to the CIP grant).

HRSA Response:

HRSA concurs with OIG's recommendation and will work with Mount Vernon to determine the amount of unallowable costs charged and require that such amounts be refunded to the federal government.

OIG Recommendation:

We recommend that HRSA either require Mount Vernon to refund \$1,610,046 in IDS grant funds to the Federal Government or work with Mount Vernon to determine whether any of these costs claimed against the grant were allowable.

HRSA Response:

HRSA concurs with OIG's recommendation and will work with Mount Vernon to determine the amount of allowable costs and require that any unallowable amounts charged to the IDS grant be refunded to the federal government.

OIG Recommendation:

We recommend that HRSA educate Mount Vernon officials on Federal requirements for the proper period to charge costs and supporting salaries and wages and ensure that Mount Vernon maintains personnel activity reports for each employee who works on Federal awards.

HRSA Response:

HRSA concurs with OIG's recommendation and will work with Mount Vernon to ensure that they are in compliance with federal requirements regarding charge costs, supporting salaries and wages, and maintaining personnel activity reports for each employee who works on federal awards.

OIG Recommendation:

We recommend that HRSA ensure that Mount Vernon adheres to its policies and procedures for drawing down Federal funds.

HRSA Response:

HRSA concurs with OIG's recommendation and upon receipt of the final report, HRSA will work with Mount Vernon to ensure that they are in compliance with their policies and procedures for drawing down federal funds.