



August 9, 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 of North Penn Comprehensive Health Services,
Inc. (A-03-10-00350)

The attached final report provides the results of our limited scope review of North Penn Comprehensive Health Services, Inc. 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 Office of Inspector General (OIG) post its publicly available reports on the OIG Web site. Accordingly, this report will be posted at <http://oig.hhs.gov>.

Please send us your final management decision, including any action plan, as appropriate, within 60 days. If you have any questions or comments about this report, please do not hesitate to call me at (202) 619-1175 or through email at Lori.Pilcher@oig.hhs.gov. Please refer to report number A-03-10-00350 in all correspondence.

Attachment

Department of Health & Human Services

**OFFICE OF
INSPECTOR GENERAL**

**RESULTS OF LIMITED SCOPE
REVIEW OF NORTH PENN
COMPREHENSIVE HEALTH
SERVICES, INC.**



Daniel R. Levinson
Inspector General

August 2010
A-03-10-00350

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:

Office of Audit Services

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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Notices

THIS REPORT IS AVAILABLE TO THE PUBLIC
at <http://oig.hhs.gov>

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

OFFICE OF AUDIT SERVICES FINDINGS AND OPINIONS

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

EXECUTIVE SUMMARY

BACKGROUND

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

North Penn Comprehensive Health Services, Inc. (North Penn), is an affiliate of the Laurel Health System and provides primary health care and other social services to patients in Tioga County, Pennsylvania. North Penn provides primary health care to approximately 20,000 patients each year, of which 36 percent are uninsured.

North Penn is funded primarily through HRSA grants; Medicare, Medicaid, and insurance payments; and community support. During Federal fiscal year 2009, HRSA awarded two separate 2-year Recovery Act grants totaling \$1,130,720 to North Penn.

OBJECTIVE

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

SUMMARY OF FINDINGS

Based on our assessment, we believe North Penn, an affiliate of Laurel Health, is financially viable and has the capacity to manage and account for Federal funds and to operate its health center in accordance with Federal regulations. However, we noted certain weaknesses related to the accounting system, adequate safeguarding of assets, and property disposal policy.

RECOMMENDATION

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

NORTH PENN COMPREHENSIVE HEALTH SERVICES, INC., COMMENTS

In written comments on our draft report, North Penn concurred with the findings and stated that it would submit a corrective action plan to address the noted weaknesses. North Penn's comments are included in their entirety as the Appendix.

TABLE OF CONTENTS

	<u>Page</u>
INTRODUCTION	1
BACKGROUND	1
The Health Center Program	1
North Penn Comprehensive Health Services, Inc.....	1
Requirements for Federal Grantees	1
OBJECTIVE, SCOPE, AND METHODOLOGY	2
Objective	2
Scope.....	2
Methodology	2
FINDINGS AND RECOMMENDATION	3
ACCOUNTING SYSTEM	3
ADEQUATE SAFEGUARDING OF ASSETS	4
PROPERTY DISPOSAL POLICY	4
RECOMMENDATION	4
NORTH PENN COMPREHENSIVE HEALTH SERVICES, INC., COMMENTS	4
APPENDIX	
NORTH PENN COMPREHENSIVE HEALTH SERVICES, INC., COMMENTS	

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 (PHS Act), codified at 42 U.S.C. § 254(b). Pursuant to 42 U.S.C. § 254(b), the Health Center Program is a national program designed to provide comprehensive primary health care services to medically underserved populations through planning and operating grants to health centers. Within the U.S. Department of Health & Human Services (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.

North Penn Comprehensive Health Services, Inc.

North Penn Comprehensive Health Services, Inc. (North Penn), provides primary health care and other social services to patients in Tioga County, Pennsylvania. North Penn provides primary health care and other social services to approximately 20,000 patients each year, of which 36 percent were uninsured. North Penn is an affiliate of Laurel Health System (Laurel Health). Laurel Health also has three other affiliates, all of which share a centralized finance and fiscal services system. Laurel Health provides accounting and administrative services as well as related policies and procedures to its affiliates.

North Penn is funded primarily through HRSA grants; Medicare, Medicaid, and insurance payments; and community support. During Federal fiscal year (FY) 2009, HRSA awarded two separate 2-year Recovery Act grants totaling \$1,130,720 to North Penn. The awards included a capital improvement program grant for \$874,190 and, an increased demand for services grant for \$256,530.

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

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, Federal regulations require that grantees must properly dispose of equipment acquired with Government funds that is no longer needed in accordance with provisions set forth in 45 CFR § 74.34(g).

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

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

Scope

We conducted a limited review of North Penn's financial viability. We reviewed Laurel Health's financial management system because it performs all financial functions for North Penn. We also reviewed related policies and procedures of both North Penn and Laurel Health. Our audit did not include a technical evaluation of the budgeted costs included in North Penn's application. We did not perform an overall assessment of North Penn's internal control structure. Rather, we performed limited tests and other auditing procedures on Laurel Health's financial management system to assess its ability to administer federally funded projects.

We performed our fieldwork at North Penn's administrative office in Wellsboro, Pennsylvania, during October 2009.

Methodology

To accomplish our objective, we:

- reviewed relevant Federal laws, regulations, and guidance;
- obtained North Penn's HRSA grant application packages and supporting documentation;

- interviewed North Penn and Laurel Health personnel to gain an understanding of its accounting systems and internal controls;
- reviewed Laurel Health's fiscal procedures related to accounting documentation and preparation of financial reports;
- reviewed North Penn's and Laurel Health's financial statements for FYs 2006 through 2009;
- performed ratio analyses of North Penn's and Laurel Health's financial statements;
- reviewed North Penn's and Laurel Health's independent audits for FYs 2006 through 2009;
- reviewed North Penn's by-laws;
- reviewed minutes from Laurel Health's Board of Director meetings; and
- reviewed North Penn and Laurel Health's administrative procedures related to personnel, record-keeping, conflict resolution, 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 North Penn, an affiliate of Laurel Health, is financially viable and has the capacity to manage and account for Federal funds and to operate its health center in accordance with Federal regulations. However, we noted weaknesses related to the accounting system, adequate safeguarding of assets, and property disposal policy.

ACCOUNTING SYSTEM

Pursuant to 45 CFR § 74.21(b)(1) grantees must maintain financial management systems that provide for accurate and complete reporting of grant-related financial data.

Laurel Health's financial system had the ability to track grants individually, but this function had not been implemented. As a result, North Penn's Director of Physician Practices manually performed this function for Recovery Act grants, in addition to his primary duties. Because North Penn has many grants, in addition to Recovery Act grants, with different reporting requirements, this system was more prone to error than it would be if it were performed electronically. North Penn officials told us that Laurel Health plans to implement the grant-

tracking function of the system, but they did not have a timetable for when this would be accomplished.

ADEQUATE SAFEGUARDING OF ASSETS

Pursuant to 45 CFR § 74.21(b)(3), grantees must provide effective control over and accountability of all funds, property, and other assets to adequately safeguard all assets. Federal Deposit Insurance Corporation (FDIC) policy states that deposits owned by a corporation, partnership, or unincorporated association are insured up to \$250,000 at a single bank.

Laurel Health maintained an operating cash account for all of its affiliates. Laurel Health maintained more than \$250,000 in its operating cash account. Of the 36 months of bank balances reviewed, 28 months exceeded \$250,000. For those 28 months, Laurel Health maintained an average of \$1,050,998 above the FDIC insured amount of \$250,000. This placed North Penn at financial risk because deposits in excess of \$250,000 are not insured by the FDIC. Laurel Health did not have internal controls to adequately safeguard deposits that exceed the insured amounts.

PROPERTY DISPOSAL POLICY

Pursuant to 45 CFR § 74.21(b)(3), grantees financial management systems shall provide for effective control over and accountability for all funds, property, and other assets. In addition, 45 CFR § 74.34(g), provides methods of equipment disposal when the equipment is no longer needed and was purchased with Government funds.

North Penn did not have a policy in place for the disposal of property purchased with Federal funds. During our site visit, North Penn officials explained that they had not put a policy in place for the disposal of equipment purchased with Government funds because Federal funds had not yet been drawn down to purchase equipment. However, North Penn officials indicated that once funds were drawn down for the purpose of purchasing equipment, a policy would be put into place to address the ownership and disposal of such property.

RECOMMENDATION

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

NORTH PENN COMPREHENSIVE HEALTH SERVICES, INC., COMMENTS

In written comments on our draft report, North Penn concurred with the findings and stated that it would submit a corrective action plan to address the noted weaknesses. North Penn's comments are included in their entirety as the Appendix.

APPENDIX



North Penn Comprehensive Health Services

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Wellsboro, PA 16901
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May 21, 2010

Mr. Stephen Virbitsky
Regional Inspector General for Audit Services
U.S. Department of Health & Human Services
Office of Inspector General
Office of Audit Services, Region III
Public Ledger Building, Suite 316
150 S. Independence Mall West
Philadelphia, PA 19106-3499

Report Number: A-03-10-00350

Dear Mr. Virbitsky:

I have reviewed the U.S. Department of Health & Human Services, Office of Inspector General (OIG) draft report entitled Results of Limited Scope Review of North Penn Comprehensive Health Services, Inc.

I concur with the OIG's findings regarding weaknesses related to the North Penn Comprehensive Health Services' (NPCHS) accounting system, adequate safeguarding of assets, and property disposal policy.

Specifically, I concur that:

- 1) Pursuant to 45 CFR § 74.21(b) (1) grantees must maintain financial management systems that provide for accurate and complete reporting of grant-related financial data.
- 2) Pursuant to 45 CFR § 74.21(b) (3), grantees must provide effective control over and accountability of all funds, property, and other assets to adequately safeguard all assets. Federal Deposit Insurance Corporation (FDIC) policy states that deposits owned by a corporation, partnership, or unincorporated association are insured up to \$250,000 at a single bank.
- 3) Pursuant to 45 CFR § 74.21(b) (3), grantees financial management systems shall provide for effective control over and accountability for all funds, property, and other assets. In addition, 45 CFR § 74.34(g), provides methods of equipment disposal when the equipment is no longer needed and was purchased with Government funds.

I will submit a corrective action plan to address the noted weaknesses by May 28, 2010.

If you have any questions or comments regarding this matter, please do not hesitate to call me at (570) 723-0603.

Sincerely,

/s/ Ronald M. Gilbert, Jr.
Ronald M. Gilbert, Jr.
Chief Financial Officer