

Department of Health and Human Services

**OFFICE OF  
INSPECTOR GENERAL**

**COMMUNITY OF HOPE GENERALLY  
COMPLIED WITH THE REQUIREMENTS  
OF A CAPITAL DEVELOPMENT GRANT  
FUNDED UNDER THE AFFORDABLE  
CARE ACT**

*Inquiries about this report may be addressed to the Office of Public Affairs at  
[Public.Affairs@oig.hhs.gov](mailto:Public.Affairs@oig.hhs.gov).*



Gloria L. Jarmon  
Deputy Inspector General  
for Audit Services

August 2015  
A-03-14-03304

# *Office of Inspector General*

<http://oig.hhs.gov>

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## **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

*Community of Hope generally complied with Federal requirements and the Terms and Conditions of a \$6.25 million Community Health Center grant funded under the Affordable Care Act.*

### WHY WE DID THIS REVIEW

The Affordable Care Act (ACA) established a Community Health Center Fund administered by the Health Resources and Services Administration (HRSA) that provides \$9.5 billion in grant funds for the operation and expansion of the community health center program. An additional \$1.5 billion was authorized and appropriated for construction and renovation of community health centers nationwide. HRSA awarded Community of Hope, Inc., a not-for-profit organization, \$6.25 million of these funds to construct a health center in the District of Columbia.

As part of its ACA oversight activities, the Office of Inspector General is conducting a series of reviews of certain ACA-funded capital development grants because of the risks often associated with expansion and construction projects.

The objective of this review was to determine whether Community of Hope complied with applicable Federal requirements and the Terms and Conditions of its ACA-funded capital development grant.

### BACKGROUND

The Health Center Program is authorized under section 330 of the Public Health Service Act (42 U.S.C. § 254b). The Health Center Program provides primary health care services to medically underserved communities and vulnerable populations with limited access to health care through planning and operating grants to Federally Qualified Health Centers.

Section 10503 of the ACA established a Community Health Center Fund that provides \$9.5 billion over a 5-year period (Federal fiscal years (FYs) 2011 through 2015) for the operation and expansion of the community health center program. Section 10503 authorized and appropriated an additional \$1.5 billion to be available for the same 5-year period (FYs 2011 through 2015) for the construction and renovation of community health centers nationwide. Capital development grants are available to address immediate and pressing capital needs or to support the costs of alteration, renovation, or construction of a facility to provide health services to medically underserved communities and vulnerable populations. They are one-time awards.

### Community of Hope

Community of Hope, a not-for-profit organization, provides health care as well as housing and supportive services for low-income, underserved, and homeless people in the District of

Columbia. HRSA awarded Community of Hope a \$6.25 million grant for the period October 2010 through January 2014 to construct a health center.

## **WHAT WE FOUND**

Community of Hope generally complied with applicable Federal requirements and the Terms and Conditions of its ACA-funded capital development grant. However, Community of Hope did not request HRSA's approval as required by the Terms and Conditions of the grant before making significant changes in its approved budget. Community of Hope staff said that this error occurred because they were not aware of the requirement for prior approval from HRSA when rebudgeting project costs.

## **WHAT WE RECOMMEND**

We recommend that HRSA work with Community of Hope to ensure compliance with grant Terms and Conditions, including approval for rebudgeting of approved costs.

## **COMMUNITY OF HOPE COMMENTS**

In written comments on our draft report, Community of Hope said that it had been unaware of the procedure to submit a prior approval request and that it understood those procedures now.

## **HEALTH RESOURCES AND SERVICES ADMINISTRATION COMMENTS**

In written comments on our draft report, HRSA concurred with our recommendation.

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## INTRODUCTION

### WHY WE DID THIS REVIEW

The Affordable Care Act (ACA)<sup>1</sup> established a Community Health Center Fund administered by the Health Resources and Services Administration (HRSA) that provides \$9.5 billion in grant funds for the operation and expansion of the community health center program. An additional \$1.5 billion was authorized and appropriated for construction and renovation of community health centers nationwide. HRSA awarded Community of Hope, Inc., a not-for-profit organization, \$6.25 million of these funds to construct a health center in the District of Columbia.

As part of its ACA oversight activities, the Office of Inspector General is conducting a series of reviews of certain ACA-funded capital development grants because of the risks often associated with expansion and construction projects.

### OBJECTIVE

Our objective was to determine whether Community of Hope complied with applicable Federal requirements and the Terms and Conditions<sup>2</sup> of its ACA-funded capital development grant.

### BACKGROUND

#### The Health Center Program

The Health Center Program is authorized under section 330 of the Public Health Service Act (42 U.S.C. § 254b). The Health Center Program provides primary health care services to medically underserved communities and vulnerable populations with limited access to health care through planning and operating grants to Federally Qualified Health Centers (FQHCs).<sup>3</sup> Within the U.S. Department of Health and Human Services (HHS), HRSA administers the Health Center Program.

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<sup>1</sup> The Patient Protection and Affordable Care Act, P.L. No. 111-148 (Mar. 23, 2010), as amended by the Health Care and Education Reconciliation Act of 2010, P.L. No. 111-152 (Mar. 30, 2010), is known as the Affordable Care Act.

<sup>2</sup> HRSA Notice of Award, page 2, “Terms and Conditions” (Terms and Conditions), issued Oct. 6, 2010.

<sup>3</sup> FQHCs are public and private nonprofit health care organizations receiving grants under section 330 of the Public Health Service Act. FQHCs qualify for enhanced reimbursement from Medicare and Medicaid, as well as other benefits. FQHCs must serve an underserved area or population, offer a sliding fee scale, provide comprehensive services, have an ongoing quality assurance program, and have a governing board of directors.

## **The Affordable Care Act Funding of Community Health Centers**

Section 10503 of the ACA provided \$11 billion over a 5-year period (Federal fiscal years (FYs) 2011 through 2015) for the operation, expansion, and construction of community health centers nationwide.<sup>4</sup>

In FYs 2011 through 2014, HRSA awarded approximately \$1.5 billion in capital development grants to health centers. Capital development grants are available to address immediate and pressing capital needs or to support the costs of alteration, renovation, or construction of a facility to provide health services to medically underserved communities and vulnerable populations. They are one-time awards.

### **Community of Hope**

Community of Hope, a not-for-profit organization, provides health care through its FQHC as well as housing and supportive services for low-income, underserved, and homeless people in the District of Columbia. On October 6, 2010, HRSA awarded Community of Hope a \$6.25 million grant for the period October 2010 through September 2012 to construct a health center.<sup>5</sup> In its grant application, Community of Hope estimated that by its fifth year of operations, the center would serve 8,500 patients for combined medical, dental, and behavioral health services.

By accepting these ACA-funded capital development grant funds, Community of Hope agreed to the Terms and Conditions of the grant for submitting required reports and updates on grant-related activities, including status reports on financial activities and construction milestones established by the grant.

See Appendix A for details on the Federal requirements related to grants awarded to community health centers.

### **HOW WE CONDUCTED THIS REVIEW**

We reviewed capital development costs of \$6.25 million, the full amount of the grant awarded by HRSA that Community of Hope claimed for the period October 2010 through January 2014. Specifically, we reviewed whether Community of Hope (1) had adequate financial management controls over capital development grant funds, (2) followed procurement standards in accordance with Federal requirements for construction contracts, (3) claimed allowable costs, and (4) met grant-established project milestone dates.

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<sup>4</sup> Of this amount, \$9.5 billion was targeted to support ongoing community health center operations, create new community health center sites, and expand preventive and primary health care services at existing community health center sites. The remaining \$1.5 billion was to support major construction and renovation projects at community health centers.

<sup>5</sup> The budget and project period end dates were extended and approved by HRSA through January 31, 2014.

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.

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

## **FINDING**

Community of Hope generally complied with applicable Federal requirements and the Terms and Conditions of its ACA-funded capital development grant. However, Community of Hope did not request HRSA's approval as required by the Terms and Conditions of the grant before significant rebudgeting of project costs. Community of Hope staff said that this error occurred because they were not aware of the requirement in the Terms and Conditions of the grant.

### **LACK OF PRIOR APPROVAL BEFORE REVISING BUDGETED COSTS**

HRSA's Notice of Award included the total approved budget and the Terms and Conditions of the grant. Federal regulations require grantees to report some deviations from the budget and request approval for them before revising the budget (45 CFR § 74.25(b)). The Terms and Conditions require grantees to seek approval before significant rebudgeting of project costs. Significant rebudgeting occurs when cumulative transfers among direct cost budget categories for the budget period exceed 25 percent of the total approved budget for that budget period or \$250,000, whichever is less.

The total approved budget was \$25.25 million, which included \$6.25 million of HRSA grant funds. Community of Hope made transfers greater than \$250,000 in four budget cost categories: administrative and legal (reduced by \$1,100,707), architectural (increased by \$343,911), construction (increased by \$710,931), and equipment (increased by \$578,025).<sup>6</sup> Although the transfers did not exceed 25 percent of the total approved budget, they did exceed \$250,000. Community of Hope should have requested approval from HRSA but did not inform HRSA of the transfers until after the funding was expended.

By not requesting the required approval before rebudgeting project costs, Community of Hope limited the grant activity information available for HRSA's oversight of the grant. Community of Hope staff said that they were not aware that the Terms and Conditions of the grant required approval from HRSA before significantly rebudgeting project costs.

## **RECOMMENDATION**

We recommend that HRSA work with Community of Hope to ensure compliance with grant Terms and Conditions, including approval for rebudgeting of approved costs.

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<sup>6</sup> These transfers increased the total budget using other sources of funding but did not increase the amount of grant funds spent on the project.

## **COMMUNITY OF HOPE COMMENTS**

In written comments on our draft report, Community of Hope said that it had been unaware of the procedure to submit a prior approval request and that it understood those procedures now. Community of Hope's comments are included in their entirety as Appendix C.

## **HEALTH RESOURCES AND SERVICES ADMINISTRATION COMMENTS**

In written comments on our draft report, HRSA concurred with our recommendation. HRSA's comments are included in their entirety as Appendix D.

## **OTHER MATTERS**

Federal regulations require grant recipients to initiate closeout procedures and submit applicable reports within 90 calendar days after the date of completion of the award (45 CFR § 74.71(a)). Reporting requirements in HRSA's Terms and Conditions require a permanent certificate of occupancy as part of the grant closeout process.

When the project grant period ended on January 31, 2014, the Community of Hope health center building was completed, open, and serving patients. However, Community of Hope was unable to complete the closeout process because it was operating under a temporary certificate of occupancy and had not received a permanent certificate of occupancy. District of Columbia zoning laws require that a facility such as the new health center have adequate parking before the certificate may be issued. Community of Hope had plans and funding for a parking garage and requested the building permit in October 2013 but could not start construction on the garage until it received the permit. As of the end of our fieldwork, Community of Hope was still waiting for the District of Columbia to issue the permit.

HRSA has approved grant extensions and said that it planned to continue approving extensions until the garage is complete.

## **APPENDIX A: FEDERAL REQUIREMENTS FOR GRANTEES**

A nonprofit organization in receipt of grant funds awarded by HHS must comply with the Uniform Administrative Requirements in the Federal regulations (45 CFR part 74). The organization also must comply with Federal cost principles (2 CFR part 230, made applicable by 45 CFR § 74.27(a)). These cost principles require that grant expenditures submitted for Federal reimbursement be reasonable, allocable, and otherwise allowable. A community health center grantee must also comply with the requirements for health centers in 42 U.S.C. § 254b and implementing regulations at 42 CFR part 51c.

### **FEDERAL REGULATIONS**

#### **45 CFR Part 74 Uniform Administrative Requirements**

##### *45 CFR § 74.21 Standards for Financial Management Systems*

Grantees must maintain financial management systems that provide accurate, current, and complete disclosure of the financial results of each HHS-sponsored project or program (45 CFR § 74.21(b)(1)).

Grantees' financial management systems must maintain records that adequately identify the source and uses of funds for HHS-sponsored activities (45 CFR § 74.21(b)(2)).

Grantees' systems must provide effective control over and accountability for all funds, property, and other assets. Grantees must adequately safeguard all such assets and assure that they are used solely for authorized purposes (45 CFR § 74.21(b)(3)).

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

Grantees' systems must also provide accounting records that are supported by source documentation (45 CFR § 74.21(b)(7)).

##### *45 CFR § 74.25 Revision of Budget and Program Plans*

The budget plan is the financial expression of the project or program as approved during the award process. Granting agencies may require the budget include the sum of the Federal and nonfederal funding, or only the Federal share. Grantees are required to report deviations from budget and program plans and request prior approvals for budget and program plan revisions in accordance with this section.

#### *45 CFR § 74.71(a) Closeout Procedures*

Grantees shall submit, within 90 calendar days after the date of completion of the award, all financial, performance, and other reports as required by the terms and conditions of the award. The awarding agency may approve extensions when requested by the recipient.

#### **42 CFR Part 51c Grants for Community Health Services**

Grantees must record award payments in accounting records separate from the records of all other funds, including funds derived from other grant awards. For each project, the grantee must account for the total of all amounts paid, as well as other funds and in-kind contributions, by presenting satisfactory evidence of expenditure for direct and indirect costs (42 CFR § 51c.112(a)).

#### **DEPARTMENT OF HEALTH AND HUMAN SERVICES GRANT REQUIREMENTS**

The HHS Grants Policy Statement states that a grantee indicates acceptance of an award and its associated Terms and Conditions by requesting and accepting funds. The Notice of Award is binding unless and until it is modified by a revised Notice of Award signed by the Grants Management Officer (Part II, page 1).

Standard Terms #4 in the Terms and Conditions of HRSA's Notice of Award for award C8ACS21333-01-00 states that HRSA requires grantees to seek prior approval for significant rebudgeting of project costs. Significant rebudgeting occurs when, under a grant where the Federal share exceeds \$100,000, cumulative transfers among direct-cost budget categories for the current budget period exceed 25 percent of the total approved budget (inclusive of direct and indirect costs and Federal funds and required matching or cost sharing) for that budget period or \$250,000, whichever is less.

Reporting Requirement #2 in the Terms and Conditions of HRSA's Notice of Award for award C8ACS21333-01-00 requires that grantees submit documentation that the projects have been completed in accordance with all mandatory Federal, State, and local requirements. Documentation must be submitted on HRSA's template, which requires a certificate of occupancy as part of the documentation.

## APPENDIX B: AUDIT SCOPE AND METHODOLOGY

### SCOPE

We reviewed the \$6.25 million capital development grant awarded by HRSA on October 6, 2010. Community of Hope claimed the full amount of the grant during the period October 2010 through January 2014.<sup>7</sup> We reviewed whether Community of Hope (1) had adequate financial management controls over capital development grant funds, (2) followed procurement standards in accordance with Federal requirements for construction contracts, (3) claimed allowable costs, and (4) met grant-established project milestone dates.

We did not review the overall internal control structure of Community of Hope or HRSA's grant management program. Rather, we reviewed only those controls related to our objective.

We performed fieldwork at Community of Hope's office in the District of Columbia during August 2014.

### METHODOLOGY

To accomplish our objective, we:

- reviewed applicable Federal laws, regulations, and guidance;
- met with HRSA officials to gain an understanding of the ACA community health center program and funding requirements;
- met with Community of Hope officials to gain an understanding of their accounting system, policies and procedures for managing Federal grant funds, and health center grant activities;
- obtained and reviewed Community of Hope's ACA capital development grant application package, approved design documents and timeline for project completion, Notice of Award documents, and applicable amendments;
- reviewed Community of Hope's financial management controls, procurement policies and procedures, and construction contracts;
- reviewed costs totaling \$6.25 million claimed on grant expenditure reports to determine whether costs were allowable for reimbursement;
- compared approved project budgeted amounts to actual expenditures and analyzed discrepancies, including transfers;

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<sup>7</sup> The original grant period was from October 1, 2010, through September 30, 2012. The budget and project period end dates were extended and approved by HRSA through January 31, 2014 (see Notice of Award dated September 23, 2013, for award C8ACS21333-01-03).

- identified any costs transferred to or from the grant;
- determined whether Community of Hope met established milestone dates for project completion;
- reviewed Community of Hope’s progress toward meeting its projected increases in patient capacity and delivery of health services; and
- discussed the results of our review with Community of Hope officials.

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.

## APPENDIX C: COMMUNITY OF HOPE COMMENTS



June 1, 2015

Stephen Virbitsky  
Regional Inspector General for Audit Services  
Office of Inspector General  
Office of Audit Services, Region III  
Public Ledger Building, Suite 316  
150 S. Independence Mall West  
Philadelphia, PA 19106

RE: Report A-03-14-03304

Dear Mr. Virbitsky,

Thank you for the opportunity to review the U.S. Department of Health and Human Services, Office of Inspector General (OIG), draft report entitled *Community of Hope Generally Complied with the Requirements of a Community Health Center Grant Funded Under the Affordable Care Act*.

The report states that “Community of Hope generally complied with applicable Federal requirements and the Terms and Conditions of its ACA-funded capital development grant. However, Community of Hope did not request HRSA’s approval as required by the Terms and Conditions of the grant before making significant changes in its approved budget.”

Community of Hope was unaware of the procedure to submit a prior approval request form through the Electronic Handbook. We understand those procedures now.

Sincerely,

A handwritten signature in black ink that reads "Kelly Sweeney McShane". The signature is written in a cursive, flowing style.

Kelly Sweeney McShane  
President and CEO

## APPENDIX D: HEALTH RESOURCES AND SERVICES ADMINISTRATION COMMENTS



DEPARTMENT OF HEALTH & HUMAN SERVICES

Health Resources and Services  
Administration

Rockville, MD 20857

JUL 27 2015

**TO:** Inspector General

**FROM:** Acting Administrator

**SUBJECT:** OIG Draft Report: "Community of Hope Generally Complied With the Requirements of a Capital Development Grant Funded Under the Affordable Care Act" (A-03-14-03304)

Attached is the Health Resources and Services Administration's (HRSA) response to the OIG's draft report, "Community of Hope Generally Complied With the Requirements of a Capital Development Grant Funded Under the Affordable Care Act" (A-03-14-03304). If you have any questions, please contact Sandy Seaton in HRSA's Office of Federal Assistance Management at (301) 443-2432.

  
for James Macrae

Attachment

**Health Resources and Services Administration's Comments on the OIG Draft Report -  
“Community of Hope Generally Complied With the Requirements of a Capital  
Development Grant Funded Under the Affordable Care Act” (A-03-14-03304)**

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 recommendation is as follows:

**OIG Recommendation:**

We recommend that HRSA work with Community of Hope to ensure compliance with grant Terms and Conditions, including approval for rebudgeting of approved costs.

**HRSA Response:**

HRSA concurs with OIG’s recommendation. HRSA will work with Community of Hope to ensure the grantee complies with grant term and conditions, including approval for rebudgeting of approved costs.