



March 30, 2011

TO: Mary Wakefield, Ph.D., R.N.
Administrator
Health Resources and Services Administration

FROM: /Lori S. Pilcher/
Assistant Inspector General for Grants, Internal Activities,
and Information Technology Audits

SUBJECT: Results of Limited Scope Review at Oakhurst Medical Centers, Inc.
(A-04-10-03537)

The attached final report provides the results of our limited scope review at Oakhurst Medical Centers, 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 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 6 months. 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-04-10-03537 in all correspondence.

Attachment

Department of Health & Human Services

**OFFICE OF
INSPECTOR GENERAL**

**RESULTS OF LIMITED SCOPE
REVIEW AT OAKHURST MEDICAL
CENTERS, INC.**



Daniel R. Levinson
Inspector General

March 2011
A-04-10-03537

Office of Inspector General

<http://oig.hhs.gov>

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

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The Office of Audit Services (OAS) provides auditing services for HHS, either by conducting audits with its own audit resources or by overseeing audit work done by others. Audits examine the performance of HHS programs and/or its grantees and contractors in carrying out their respective responsibilities and are intended to provide independent assessments of HHS programs and operations. These assessments help reduce waste, abuse, and mismanagement and promote economy and efficiency throughout HHS.

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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, 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. These appropriations included \$500 million for grants to health centers, \$1.5 billion for health center construction, renovation, and equipment and for the acquisition of health information technology systems, and \$500 million to address health professions workforce shortages. HRSA made available four types of Recovery Act grants to health centers: (1) new access points, (2) increased demand for services (IDS), (3) facilities investment program, and (4) capital improvement program (CIP). Recovery Act grants were provided to both new and existing health centers and a center was permitted to receive more than one type of grant.

Established in 1978, Oakhurst Medical Centers, Inc. (Oakhurst) is an independent nonprofit primary health care provider. It served 11,028 patients in 2009, of which 37 percent were uninsured, at 2 service sites in DeKalb County, Georgia. Oakhurst's medical services included family practice, pediatrics, obstetrics and gynecological services (OB/GYN), internal medicine, radiology, laboratory services, pharmacy services, mental health services, and other specialties.

On March 16, 2009, Oakhurst applied for Recovery Act IDS grant funding to increase OB/GYN services by adding two additional days of services with one physician, and a part-time nurse practitioner position. According to Oakhurst's IDS grant application, the funding would also enable Oakhurst to provide prenatal care and increased medical services and pharmacy capacity. On March 27, 2009, HRSA awarded Oakhurst a \$245,585 IDS grant.

On June 2, 2009, Oakhurst applied for Recovery Act CIP grant funding to expand the facility to accommodate three additional exam rooms, expand the waiting rooms for pediatrics and OB/GYN patients, replace the heating, ventilating, and air conditioning systems and roof, and expand the parking lot. According to Oakhurst's CIP grant application, the funding would improve quality of care. On June 25, 2009, HRSA awarded Oakhurst a \$605,040 CIP grant.

OBJECTIVE

Our objective was to assess Oakhurst'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, Oakhurst's financial viability improved over the time of our audit period. It has the ability to manage and account for Federal funds and to operate a health center in accordance with Federal regulations. However, we identified a weakness in Oakhurst's controls over its contracting process.

RECOMMENDATION

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

OAKHURST MEDICAL CENTERS COMMENTS

In written comments on our draft report, Oakhurst did not comment on our finding regarding its improved financial viability and agreed with our finding regarding insufficient controls over its contracting process. Oakhurst said that the CEO has no financial interest or any operating capacity in the contractor's company. According to Oakhurst, the CEO assisted the contractor in incorporating years before CIP funding was available. Oakhurst said that the Board was integrally involved in the planning and oversight of the project and empowered the CEO to make the final decision. Oakhurst also outlined actions it had taken to strengthen its contracting controls.

Oakhurst provided additional information in its response regarding controls over its procurement process. Oakhurst's comments are included as the Appendix.

OFFICE OF INSPECTOR GENERAL RESPONSE

We did not find any evidence that the Board had empowered the CEO to make the final decision on selecting the winning bid or the reasoning behind the selection of the winning bidder. Therefore, we maintain our finding regarding Oakhurst's contracting process.

After reviewing Oakhurst's comments, we deleted the finding regarding controls over its procurement process.

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INTRODUCTION

BACKGROUND

The Health Center Program

The Health Centers Consolidation Act of 1996 (P.L. No. 104–299) consolidated the Health Center Program under Section 330 of the Public Health Service Act, codified at 42 U.S.C. § 254(b). 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 is a national program that 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. These appropriations included \$500 million for grants to health centers; \$1.5 billion for health center construction, renovation, and equipment and for the acquisition of health information technology systems; and \$500 million to address health profession workforce shortages. HRSA made available four types of Recovery Act grants to health centers: (1) new access points, (2) increased demand for services (IDS), (3) facilities investment program, and (4) capital improvement program (CIP). Recovery Act grants were provided to both new and existing health centers, and a center was permitted to receive more than one type of grant.

Oakhurst Medical Centers, Inc.

Established in 1978, Oakhurst Medical Centers, Inc. (Oakhurst) is an independent nonprofit primary health care provider. It served 11,028 patients in 2009, of which 37 percent were uninsured, at 2 service sites in DeKalb County, Georgia. Oakhurst’s medical services included family practice, pediatrics, obstetrics and gynecological services (OB/GYN), internal medicine, radiology, laboratory services, pharmacy services, mental health services, and other specialties.

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OB/GYN patients, replace the heating, ventilating, and air conditioning systems and roof, and expand the parking lot. According to Oakhurst's CIP grant application, the funding would improve quality of care. On June 25, 2009, HRSA awarded Oakhurst a \$605,040 CIP grant.

Requirements for Federal Grantees

Nonprofit organizations that receive HRSA funds must comply with Federal cost principles found at 2 CFR part 230, *Cost Principles for Non-profit Organizations* (formerly Office of Management and Budget Circular A-122). In addition, 42 U.S.C. § 254(b) defines requirements for health centers under the Health Center Program.

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

In addition, grantees must establish written procurement procedures that include certain provisions as set forth in 45 CFR § 74.44. Federal regulations also require grantees to deposit and maintain advances of Federal funds in insured accounts whenever possible (45 CFR § 74.22(i)(2)).

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

Our objective was to assess Oakhurst'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 to assess Oakhurst's financial viability, financial management system, and related policies and procedures. Therefore, we did not perform an overall assessment of Oakhurst's internal control structure. Rather, we performed limited tests and other auditing procedures on Oakhurst's financial management system to assess its ability to administer federally funded projects. Our review period was January 1, 2006, through December 31, 2009.

We performed our fieldwork at Oakhurst's administrative office in Stone Mountain, Georgia, in April and October 2010.

Methodology

To accomplish our objective, we:

- reviewed relevant Federal laws, regulations, and guidance, including HRSA program and policy announcements;
- obtained and reviewed Oakhurst's HRSA grant application packages and supporting documentation;
- interviewed Oakhurst personnel to gain an understanding of its accounting systems and internal controls;
- reviewed Oakhurst's fiscal procedures related to accounting documentation and preparation of financial reports;
- performed ratio analyses of Oakhurst's financial statements;
- reviewed Oakhurst's audited financial statements for fiscal years (FY) 2005 through 2009;
- reviewed Oakhurst's by-laws;
- reviewed minutes from Oakhurst's Board of Director meetings; and
- discussed the results of our review with Oakhurst 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 objective.

FINDINGS AND RECOMMENDATION

Based on our assessment, Oakhurst's financial viability improved over the time of our audit period. It has the ability to manage and account for Federal funds and to operate a health center in accordance with Federal regulations. However, we identified a weakness in Oakhurst's controls over its contracting process.

FINANCIAL VIABILITY

To determine whether Oakhurst was financially viable, we performed stability and liquidity analyses of Oakhurst's finances for FYs 2005 through 2009. Our analyses of Oakhurst's financial status indicated that Oakhurst's financial condition was generally improving during this period, albeit from a poor starting point.

Based on its net asset and debt ratios, Oakhurst's financial stability showed significant improvement over the audit period.

Stability Measures

	2005	2006	2007	2008	2009
Net Asset Ratio	(.14)	(.04)	(.04)	.12	.21
Debt Ratio	1.30	1.10	1.10	.66	.37

Negative ratios (shown in parentheses) indicate that Oakhurst at one time had a negative unrestricted net asset balance and, therefore, had no reserve to meet temporary cash shortages, emergencies, or deficit situations in the future. As of December 31, 2008, that number turned positive and remained so in 2009. A debt ratio is used to determine the overall financial risk and if greater than 1, indicates that a company has more debts than assets.

Liquidity Measures

	2005	2006	2007	2008	2009
Quick Ratio	.16	.26	.29	.52	1.38
Current Ratio	.13	.22	.27	.49	1.22
Net Working Capital	(\$949,663)	(\$673,983)	(\$720,791)	\$64,858	\$1,159,496
Revenues in Excess of Expenses	\$165,724	\$361,385	\$4,322	\$924,565	\$1,086,288

Quick and current ratios greater than 1 are considered good. Oakhurst met this threshold in 2009. The net working capital for 2009 equaled approximately 1.36 months of expenditures. In addition, revenues exceeded expenses in each of the 5 years reviewed.

Oakhurst's Board of Directors attributed the improvement in financial condition to decisive actions it took in late 2004. The Board replaced the administrative staff with the current administrative staff, and the Board became more actively involved, including getting more detailed financial information. The HRSA Bureau of Primary Health Care noted the positive trend in Oakhurst's financial condition during its site visit in 2008.

Although Oakhurst was in poor financial condition in 2005, the positive financial trends in subsequent years show that Oakhurst is moving toward strengthening its financial viability.

INSUFFICIENT CONTROLS OVER CONTRACTING

Pursuant to 45 CFR § 74.42, no employee, officer, or agent shall participate in the selection, award, or administration of a contract supported by Federal funds if a real or apparent conflict of interest would be involved. Such a conflict would arise when the employee, officer, agent, or any member of his or her immediate family, his or her partner, or an organization which employs or is about to employ any of the parties indicated herein, has a financial or other interest in the firm selected for an award.

Section 16 of Oakhurst's *Financial and Management Information System Policies and Procedures Manual* states,

No employee, officer or agent shall participate in the selection, award or administration of a contract in which Federal funds are used, where, to his knowledge, he or his immediate family, partners, or organization in which he or his immediate family or partner has a financial interest or with whom he is negotiating or has any arrangement concerning prospective employment. No officer, employee or agent shall solicit or accept gratuities, favors or anything of monetary value from contractors or potential contractors.

Oakhurst's Chief Executive Officer (CEO) is the registered agent for RBS Inc., the Georgia Corporation that received the contract to work on a major construction project funded through the grant. Board of Directors' minutes and contract bidding files did not disclose this relationship or indicate a recusal on the part of the CEO from participating in the contract negotiations. In addition, while there was evidence that a competitive bidding process was undertaken, there was no evidence of formal Board approval of the winning bid and the reasoning behind the selection of the winning bidder.

This apparent conflict of interest occurred because Oakhurst's Board of Directors did not provide adequate oversight over the review and approval of bids relating to construction under its HRSA CIP grant. Without evidence of a clear and open bidding process, and documentation of Board involvement and approval of the winning bids, Oakhurst's contracting processes could result in the improper expenditure of Federal funds.

RECOMMENDATION

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

OAKHURST MEDICAL CENTERS COMMENTS

In written comments on our draft report, Oakhurst did not comment on our finding regarding its improved financial viability and agreed with our finding regarding insufficient controls over its contracting process. Oakhurst said that the CEO has no financial interest or any operating capacity in the contractor's company. According to Oakhurst, the CEO assisted the contractor in incorporating years before CIP funding was available. Oakhurst said that the Board was integrally involved in the planning and oversight of the project and empowered the CEO to make the final decision. Oakhurst also outlined actions it had taken to strengthen its contracting controls.

Oakhurst provided additional information in its response regarding controls over its procurement process. Oakhurst's comments are included as the Appendix.

OFFICE OF INSPECTOR GENERAL RESPONSE

We did not find any evidence that the Board had empowered the CEO to make the final decision on selecting the winning bid or the reasoning behind the selection of the winning bidder. Therefore, we maintain our finding regarding Oakhurst's contracting process.

After reviewing Oakhurst's comments, we deleted the finding regarding controls over its procurement process.

APPENDIX

APPENDIX: OAKHURST MEDICAL CENTERS, INC. COMMENTS



770 Village Square Drive, Stone Mountain, GA 30083
www.oakhurstmedical.org

Office: 404-298-8998
Fax: 404-298-7658

February 15, 2011

Mr. John Drake
Office of Audit Services, Region IV
61 Forsyth Street, NW Suite 3T41
Atlanta, GA 30303

RE: Report Number A-04-10-03537 dated February 15, 2011

Dear Mr. Drake,

This letter is to submit comments on the above reference report. The report cites two financial weaknesses in Oakhurst's financial management. Below is the response to the weaknesses:

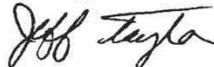
Insufficient Controls over Contracting

Oakhurst will adhere to its policies and procedures over contracting so that apparent conflicts do not exist between employees, officers or agents and outside contractors. Also, the board will review all bids and contracts of the organization at a minimum through the finance committee. The CEO's name has been removed from the contractor as the registered agent. This was simply an oversight. The CEO assisted the contractor in incorporating years before CIP funding was made available. The CEO has no financial interest nor has any operating capacity in the contractor's company.

The board was integrally involved in the planning and oversight of the project and empowered the CEO to make the final decision. The board was also aware that bids were being competitively reviewed. All board members and the CEO have signed conflict of interest statements and this was an oversight. The process is now in place to minimize anything like this happening in the future. Board conflict of interest statements are signed and kept on file annually.

OIG Note: We deleted the remainder of Oakhurst's comments because they pertained to material included in the draft report but not included in this final report.

Sincerely,



Jeffrey Q. Taylor
Chief Executive Officer

cc: Brian Williams MD, Board Chair