

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**COMMUNITY HEALTH
NETWORK, INC., HAD
SIGNIFICANT LIABILITIES
ON DECEMBER 31, 2011**

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



**Lori S. Pilcher
Regional Inspector General**

**October 2012
A-04-11-03539**

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

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, the Health Resources and Services Administration (HRSA) administers the program.

The Health Center Program provides grants to non-profit private or public entities that serve designated medically underserved populations and areas, as well as, vulnerable populations of migrant and seasonal farm workers, the homeless, and residents of public housing. These grants are authorized under Section 330 of the Health Centers Consolidation Act of 1996, and include the Rural Health Care Service Outreach and Telehealth Network Program grants.

American Recovery and Reinvestment Act of 2009

Under the American Recovery and Reinvestment Act of 2009, P.L. No. 111-5 (Recovery Act), enacted February 17, 2009, HRSA received \$2.5 billion, \$2 billion of which was to expand the Health Center Program by serving more patients, stimulating new jobs, and meeting the expected increase in demand for primary health care services among the Nation's uninsured and underserved populations. HRSA awarded a number of grants using Recovery Act funding in support of the Health Center Program, including Health Information Technology Implementation grants.

Community Health Network, Inc.

Community Health Network, Inc. (CHN), is a non-profit corporation located in Savannah, Tennessee that furnishes various information technology services, including electronic storage and data processing services to rural health care providers in Tennessee. CHN also performs other healthcare-related work pursuant to the terms of specific grants that it received, such as promoting and financing physicians' use of electronic prescriptions.

CHN is funded primarily from Federal, State, and private grants and fees from rural health clinics. During calendar years 2009 and 2010, HRSA awarded CHN grant funding totaling approximately \$3.2 million.

Federal Requirements for Grantees

CHN 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.

Health Resources and Services Administration Concerns

After CHN officials informed HRSA that they were uncertain about CHN's ability to continue its operations, HRSA requested that we perform a review of CHN's ability to complete its grant requirements.

OBJECTIVES

Our objectives were to determine whether (1) CHN had the financial and human resources needed to complete the requirements of its HRSA grants and (2) CHN's grant expenditures were allowable under the terms of the grants and applicable Federal requirements.

SUMMARY OF FINDINGS

CHN had sufficient financial and human resources to complete the requirements of its HRSA grants. However, CHN had significant liabilities, in excess of \$1 million, that could affect its ability to pay its recurring expenses in the future. Furthermore, CHN charged \$4,796 in unallowable costs to its Telehealth Network Program grant.

The unallowable costs that CHN charged to a HRSA grant, as well as the liabilities that pose a threat to its continued ability to pay recurring expenses, were attributable to CHN's inadequate internal controls, including a lack of segregation of duties, to properly manage income and expenses.

RECOMMENDATIONS

We recommend that HRSA:

- continue CHN's restricted reimbursement drawdown status until its liabilities have been resolved,
- monitor CHN's resolution of its liabilities for their impact on CHN's ability to continue to meet the requirements of its HRSA grants,
- monitor CHN's efforts to strengthen its internal controls and its ability to account for the use of funds, and
- require CHN to refund to the Federal Government \$4,796 in unallowable costs charged to its Telehealth Network Program grant.

COMMUNITY HEALTH NETWORK, INC., COMMENTS

In written comments on our draft report, CHN concurred with our finding regarding unallowable costs charged to its Telehealth Network Program grant and discussed steps it had taken to resolve its significant liabilities and strengthen its internal controls. CHN's comments are included in their entirety as Appendix A.

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

In written comments on our draft report, HRSA concurred with our first, second, and third recommendations. With regard to our fourth recommendation, HRSA stated that it will work with the grantee to determine whether any of the \$4,796 is unallowable and should be refunded. We maintain that the \$4,796 that CHN charged to its Telehealth Network Program grant is unallowable and stand by our recommendation that HRSA require CHN to refund that amount to the Federal government.

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

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INTRODUCTION

BACKGROUND

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The Health Center Program provides grants to non-profit private or public entities that serve designated medically underserved populations and areas, as well as, vulnerable populations of migrant and seasonal farm workers, the homeless, and residents of public housing. These grants are authorized under Section 330 of the Health Centers Consolidation Act of 1996, and include the Rural Health Care Service Outreach and Telehealth Network Program grants.

American Recovery and Reinvestment Act of 2009

Under the American Recovery and Reinvestment Act of 2009, P.L. No. 111-5 (Recovery Act), enacted February 17, 2009, HRSA received \$2.5 billion, \$2 billion of which was to expand the Health Center Program by serving more patients, stimulating new jobs, and meeting the expected increase in demand for primary health care services among the Nation's uninsured and underserved populations. HRSA awarded a number of grants using Recovery Act funding in support of the Health Center Program, including Health Information Technology Implementation (HIT) grants.

Community Health Network, Inc.

Community Health Network, Inc. (CHN), is a non-profit corporation located in Savannah, Tennessee that furnishes various information technology services, including electronic storage and data processing services to rural health care providers in Tennessee. CHN also performs other healthcare-related work pursuant to the terms of specific grants that it received, such as promoting and financing the use of electronic prescriptions.

CHN is funded primarily by Federal, State, and private grants and fees from rural health clinics. During calendar years (CY) 2009 and 2010, CHN had revenues from all funding sources totaling \$2.8 million and \$1.2 million, respectively. CHN's total revenues included amounts from the HRSA grants as well as from other non-Federal sources, such as from fees charged for information technology services provided to various health clinics and non-Federal grants.

During CYs 2009 and 2010, CHN had three HRSA grants: (1) a 3-year grant under the Rural Health Care Services Outreach Program totaling \$375,000, (2) a 3-year grant under the Telehealth Network Program totaling \$740,000, and (3) a 2-year HIT grant totaling \$2,110,936 that was awarded under the Recovery Act.

Health Resources and Services Administration Concerns

In January 2010, CHN's chief executive officer (CEO) resigned. CHN's Board of Directors (Board) then discovered that a number of payments had been made to the CEO and chief financial officer (CFO) for unauthorized bonuses and personal expenses. In March 2010, CHN's CFO was terminated. In January 2011, CHN expressed doubts to HRSA about its ability to continue its operations and CHN officials suggested to HRSA that if CHN discontinued its operations, Tennessee Primary Care Association (TNPCA) could assume CHN's HIT Recovery Act grant. Although CHN did not discontinue its operations, it relinquished its HIT Recovery Act grant to HRSA in October 2011. HRSA re-awarded the HIT grant to TNPCA in December 2011, and HRSA allowed CHN to continue work under its Rural Health Care Services Outreach and Telehealth Network grants.

After CHN officials informed HRSA that they were concerned about CHN's ability to continue its operations, HRSA requested that we perform a review of CHN's ability to complete its grant requirements.

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 non-profit organizations. As a non-profit organization in receipt of Federal funds, a grantee must comply with Federal cost principles in 2 CFR part 230, *Cost Principles for Non-Profit Organizations* (formerly Office of Management and Budget Circular A-122), incorporated by reference at 45 CFR § 74.27(a). These cost principles require that grant expenditures submitted for Federal reimbursement be 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 costs in accordance with applicable Federal cost principles and the terms and conditions of the award (45 CFR § 74.21(b) (6)). Furthermore, recipients are responsible for managing and monitoring each project, program, sub award, function, or activity supported by the award (45 CFR § 74.51(a)).

Special Award Conditions

Pursuant to 45 CFR § 74.14, HRSA may impose additional requirements if a grant recipient has a history of poor performance, is not financially stable, does not have a management system that

meets Federal standards, has not conformed to the terms and conditions of a previous award, or is not otherwise responsible. Effective January 2011, HRSA imposed a special award condition that required CHN to obtain HRSA approval before withdrawing any HRSA grant funds.¹

State of Tennessee Investigative Audit Report

On July 7, 2011, the Tennessee Comptroller of the Treasury, Department of Audit, Division of Municipal Audit (State Auditor), issued an investigative audit report (State Auditor's report) concerning CHN's management of grant funds. The investigative audit, covering the period January 1, 2007, through December 31, 2009, was initiated after CHN failed to provide adequate documentation that it had fulfilled the terms of a Tennessee Department of Finance and Administration contract and, as a result, owed the State of Tennessee \$628,948. According to the State Auditor's report, the audit revealed possible criminal conduct by CHN's former CEO and former CFO, who misspent or failed to account for at least \$1.2 million of non-HRSA grant funds. The State Auditor's report also cited significant deficiencies in CHN's internal controls, such as CHN's failure to:

- separate incompatible duties of its employees;
- maintain required accounting records;
- maintain adequate and complete equipment inventory; and
- budget and plan for recurring costs, such as software maintenance and telecommunication line fees.

OBJECTIVES, SCOPE, AND METHODOLOGY

Objectives

Our objectives were to determine whether (1) CHN had the financial and human resources needed to complete the requirements of its HRSA grants and (2) CHN's grant expenditures were allowable under the terms of the grants and applicable Federal requirements.

Scope

Our review covered the period May 1, 2009, through December 31, 2011. We focused primarily on (1) personnel and financial data including liabilities totaling more than \$1 million that CHN

¹ We refer to this special award condition as "restricted reimbursement drawdown" status in this report. HRSA placed CHN on "restricted reimbursement drawdown" status to require it to submit supporting documentation and to obtain prior approval from HRSA for every drawdown request.

had accumulated through December 31, 2011, and (2) the \$83,227² in expenses that HRSA requested we examine for the period May to December 2009.

Although CHN ultimately relinquished the HIT grant to HRSA, for the first objective, we reviewed all 3 HRSA grants and for the second objective, we determined that none of the \$83,227 was charged to the HIT grant.

We reviewed CHN's internal controls to the extent that they related to our audit objectives.

We performed fieldwork at CHN's corporate headquarters in Savannah, Tennessee, and at its accounting department located at Community Health Network of East Tennessee in Jacksboro, Tennessee.

Methodology

To accomplish our objectives, we:

- reviewed applicable Federal laws, regulations, and guidelines pertaining to the HRSA grants awarded to CHN;
- reviewed the State Auditor's report, as well as selected State Auditor working papers;
- met with officials representing the Tennessee Health Foundation, the State, the State Auditor, and the Tennessee State Attorney's General's office, to determine whether they had negotiated any repayment terms with CHN for unallowable costs;
- met with CHN's external auditors, Bellenfant & Miles, PLLC, to determine the status of its audit of CHN's 2010 financial statements;
- reviewed fiscal reports that CHN submitted to HRSA for CYs 2009 and 2010;
- reviewed CHN's bylaws, Board of Directors' meeting minutes, and organization chart;
- reviewed CHN policies and procedures related to finance, personnel, and internal controls;
- reviewed CHN's 2009 audited financial statements;
- determined CHN's funding sources and amounts;
- assessed CHN's cash flow for the 3-month period ended May 31, 2011;

² The \$83,277 in expenses consisted of \$4,796 CHN charged to its Telehealth Network Program grant from HRSA and \$78,481 CHN charged to its non-Federal sources of funds such as Blue Cross Blue Shield of Tennessee (the Tennessee Health Foundation), and the State of Tennessee Department of Finance and Administration (the State).

- reviewed CHN’s HRSA grant reimbursement requests for CY’s 2009, 2010, and 2011;
- analyzed CHN’s personnel and payroll data to determine CHN’s staffing in CY’s 2009 through 2011; and
- reviewed CHN’s financial management procedures related to accounting for funds, preparing budgets, preparing financial reports, and drawing down Federal funds.

As appropriate, we relied on the results of recent reviews by the State Auditor and CHN’s independent auditors in our audit. We relied principally on the audit performed by the State Auditor.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

FINDINGS AND RECOMMENDATIONS

CHN had sufficient financial and human resources to complete the requirements of its HRSA grants.³ However, CHN had significant liabilities, in excess of \$1 million, that could affect its ability to pay its recurring expenses in the future. Furthermore, CHN charged \$4,796 in unallowable costs to its Telehealth Network Program grant.

The unallowable costs that CHN charged to a HRSA grant, as well as the liabilities that pose a threat to its continued ability to pay recurring expenses, were attributable to CHN’s inadequate internal controls, including a lack of segregation of duties, to properly manage income and expenses.

RESOURCES NEEDED TO COMPLETE HEALTH RESOURCES AND SERVICES ADMINISTRATION GRANT REQUIREMENTS

Federal Requirements

Federal regulations require recipients to adequately safeguard all funds, property, and other assets (45 CFR part 74). Grantees must also maintain financial management systems. Pursuant to 45 CFR § 74.14, the HHS awarding agency may impose additional requirements as needed if the applicant or recipient has a history of poor performance or is not financially stable. Furthermore, recipients are responsible for managing and monitoring each project, program, sub-award, function, or activity supported by the award (45 CFR § 74.51(a)).

³ Although CHN relinquished the HIT grant to HRSA in October 2011, our review determined that CHN had adequate financial and human resources to administer all 3 HRSA grants.

Financial and Human Resources

CHN had sufficient financial and human resources to meet the requirements of its HRSA grants. During the 3-month period ended May 31, 2011, CHN received income totaling \$489,467 from services it provided to 20 health care clinics and 3 HRSA grants. CHN's expenses during this time, excluding depreciation, were \$328,862, for an average positive cash flow of \$53,535 per month.

CHN had sufficient full-time equivalent (FTE) employees to serve its HRSA grants. In February 2010, CHN had two HRSA grants and had applied for a third HRSA grant. At that time, CHN had 8 FTEs, while the three grants required a total of 5.85 FTEs. In November 2011, after CHN relinquished one of the three grants, CHN had 5 FTEs (4 full-time and 2 part-time⁴ employees). The remaining two HRSA grants required a total of 2.45 FTEs.

Significant Liabilities

Although CHN had a positive cash flow during the 3 months tested, CHN had significant liabilities of more than \$1 million. These liabilities were attributable to amounts CHN owed to the State and the Tennessee Health Foundation. According to the State Auditor's report, CHN:

- owed the Tennessee Health Foundation \$322,912 that it could not document as being spent for grant purposes;
- received an advance payment of \$250,000 from the State for a Physician Connectivity Grant and, according to the State Auditor, failed to account for the advance; and
- incurred expenses totaling \$347,458 that the State Auditor determined were unallowable; and
- overbilled and received payment for \$131,163 in software maintenance costs even though the terms of the Tennessee Department of Finance and Administration grant did not allow such costs.

As of December 31, 2011, CHN had not made any significant payments to reduce the amounts owed; however, CHN had recorded these amounts in its accounting records as liabilities. Also, CHN had not negotiated any repayment terms with the State and the Tennessee Health Foundation.

These liabilities were attributable to CHN's lack of controls and its inability to properly account for the use of funds.

⁴ The two part-time employees combined are equivalent to one FTE.

UNALLOWABLE COSTS CHARGED TO A HEALTH RESOURCES AND SERVICES ADMINISTRATION GRANT

CHN charged \$4,796 in unallowable costs to its Telehealth Network Program Grant in CY 2009.

Federal Requirements

Pursuant to 2 CFR, part 230, Appendix A, § A (2), “To be allowable under an award ... costs must be reasonable for the performance of the award...” In addition, goods and services for employees’ personal use are unallowable (2 CFR, part 230, Appendix B, § 19).

Unallowable Costs

For CY 2009, CHN charged \$4,796 in unallowable costs to the HRSA Telehealth Network Program grant. In July, September, and October 2009, CHN incurred \$1,020, \$2,307, and \$1,469, respectively, in charges on its corporate credit card that were for the personal expenses of a former employee. These personal expenses included such items as clothing, automotive expenses, cash advances, and electronics. CHN submitted these costs for reimbursement on its annual Federal Financial Report to HRSA.

Controls Over Health Resources and Services Administration Grant Expenditures

CHN charged unallowable costs to the Telehealth Network Program grant because it did not have adequate internal controls over its credit card expenditure approval process. Prior to early 2010, all credit card expenses, including those charged to HRSA grants, were recorded on an Excel spread sheet and submitted to the CFO. The CFO posted the expenses to the general ledger and paid the bills. However, prior to actually paying the bills, the CFO was required to have the expenses approved by the President of CHN’s Board. At that time, CHN did not require that supporting documentation for the expenses be submitted with the Excel spread sheet.

In early 2010, CHN’s Board gave the authority to approve the payment of all expenses to the Board’s Finance Committee. Effective August 2011, CHN updated its policies and procedures to require approval by the Finance Committee before the payment of any expenses, including credit card bills.

RECOMMENDATIONS

We recommend that HRSA:

- continue CHN’s restricted reimbursement drawdown status until its liabilities have been resolved,
- monitor CHN’s resolution of its liabilities for their impact on CHN’s ability to continue to meet the requirements of its HRSA grants,

- monitor CHN’s efforts to strengthen its internal controls and its ability to account for the use of funds, and
- require CHN to refund to the Federal Government \$4,796 in unallowable costs charged to its Telehealth Network Program grant.

COMMUNITY HEALTH NETWORK, INC., COMMENTS

In written comments on our draft report, CHN concurred with our finding regarding unallowable costs charged to its Telehealth Network Program grant and discussed steps it had taken to resolve its significant liabilities and strengthen its internal controls. CHN’s comments are included in their entirety as Appendix A.

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

In written comments on our draft report, HRSA concurred with our first, second, and third recommendations. With regard to our fourth recommendation, HRSA stated that it will work with the grantee to determine whether any of the \$4,796 is unallowable and should be refunded. We maintain that the \$4,796 that CHN charged to its Telehealth Network Program grant is unallowable and stand by our recommendation that HRSA require CHN to refund that amount to the Federal government.

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

APPENDIXES

APPENDIX A: COMMUNITY HEALTH NETWORK, INC., COMMENTS



August 21, 2012

Lori S. Pilcher
Regional Inspector General
Office of Audit Services, Region IV
61 Forsyth Street, SW, Suite 3T41
Atlanta, GA 30303

RE: Report Number A-04-11-03539

Dear Ms. Pilcher,

The Community Health Network, Inc. Executive Committee has had an opportunity to review the Office of Inspector General report date August 2012 regarding Community Health Network.

We understand the methodology related to the \$4,796 question cost in CY 2009 and we concur with this finding.

In regards to the remaining recommendations:

Status of liabilities

CHN has no indication that the Tennessee Health Foundation intends to pursue any claims against CHN.

We are currently in negotiation with the State of Tennessee and are awaiting a response to our offer to resolve this liability.

Strengthen Internal Control

CHN has contracted with Tennessee Primary Care Association to provide management oversight and strengthen our internal controls.

If you have any questions regarding our responses please contact me at jeff.mckissack@mwehc.org or (615) 340-1292.

Sincerely,



Jeffrey McKissack
Chairman, CHN Board of Directors

**765 Florence Road
Savannah, TN 38372**

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



DEPARTMENT OF HEALTH & HUMAN SERVICES

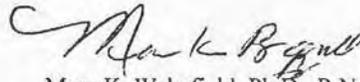
Health Resources and Services
Administration

Rockville, MD 20857

OCT 4 2012

TO: Inspector General
FROM: Administrator
SUBJECT: OIG Draft Report: "Community Health Network, Inc., Had Significant Liabilities on December 31, 2011" (A-04-11-03539)

Attached is the Health Resources and Services Administration's (HRSA) response to the OIG's draft report, "Community Health Network, Inc., Had Significant Liabilities on December 31, 2011" (A-04-11-03539). If you have any questions, please contact Sandy Scaton in HRSA's Office of Federal Assistance Management at (301) 443-2432.


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

Attachment

**Health Resources and Services Administration's Comments on the OIG Draft Report –
“Community Health Network, Inc., Had Significant Liabilities on December 31, 2011”
(A-04-11-03539)**

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

OIG Recommendation to HRSA:

We recommend that HRSA continue CHN's restricted reimbursement drawdown status until its liabilities have been resolved.

HRSA Response:

HRSA concurs with the OIG recommendation, and Community Health Network (CHN) will continue to be in restricted reimbursement drawdown status until its liabilities are resolved.

OIG Recommendation to HRSA:

We recommend that HRSA monitor CHN's resolution of its liabilities for their impact on CHN's ability to continue to meet the requirements of its HRSA grants.

HRSA Response:

HRSA concurs with the OIG recommendation and will continue to monitor CHN's financial position to allow for the resolution of liabilities to meet the requirements of its HRSA grants.

OIG Recommendation to HRSA:

We recommend that HRSA monitor CHN's efforts to strengthen its internal controls and its ability to account for the use of funds.

HRSA Response:

HRSA concurs with the OIG recommendation and will work with CHN to strengthen its internal controls as well as its ability to account for the use of funds.

OIG Recommendation to HRSA:

We recommend that HRSA require CHN to refund to the Federal Government \$4,796 in unallowable costs charged to its Telehealth Network Program grant.

HRSA Response:

HRSA concurs with the OIG recommendation and will work with the grantee to determine whether any of the \$4,796 charged to its Telehealth Network Program grant is unallowable and should be refunded.