

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**RECOVERY ACT COSTS CLAIMED BY
COASTAL FAMILY HEALTH CENTER
WERE GENERALLY ALLOWABLE**

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**Lori S. Pilcher
Regional Inspector General**

**September 2012
A-04-11-03540**

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

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.

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 the Capital Improvement Program (CIP), the Increased Demand for Services (IDS), and the Health Information Technology Implementation (HIT) grants.

Coastal Family Health Center (Coastal) is a nonprofit agency that operates a network of nine health centers throughout Mississippi. Coastal provides medical, dental, and mental health services and is funded primarily by patient service revenues and Federal grants.

During calendar years (CY) 2009 and 2010, HRSA awarded Coastal approximately \$6.3 million in grant funding under the Recovery Act. Of this amount, HRSA awarded \$3.3 million in CY 2009 that included \$1.4 million under an HIT grant to include more clinics in Mississippi's common health electronic medical records (EMR) system, \$1.3 million under a CIP grant to renovate four health facilities, and \$596,904 under an IDS grant to increase access and reduce barriers to health care within Coastal's service area. HRSA awarded the remaining \$3 million in CY 2010 under another HIT grant to include more of Coastal's clinics in the common EMR system and to enhance the existing EMR system and patient management system.

As a nonprofit organization in receipt of Federal funds, Coastal must comply with Federal cost principles in 2 CFR part 230, *Cost Principles for Non-Profit Organizations*; the requirements for health centers in 42 U.S.C. § 254(b); and the financial management system requirements in 45 CFR § 74.21.

OBJECTIVE

Our objective was to determine whether Coastal claimed costs that were allowable under the terms of the grants and applicable Federal regulations.

SUMMARY OF FINDINGS

Coastal claimed costs that were generally allowable under the terms of the grants and applicable Federal regulations. Of the \$4,621,632 we reviewed, \$3,601,977 was allowable and \$234,431 was unallowable. We could not determine the allowability of \$785,224.

Specifically, Coastal claimed:

- \$785,224 in salary, fringe benefit, and administrative costs that were not supported by personnel activity reports of employees who worked on the grants;
- \$131,657 in indirect costs that it improperly charged to its IDS and HIT grants;
- \$74,428 in other unallowable costs consisting of \$54,875 it incurred prior to the start of the grant, \$13,995 that should have been charged to another grant, and \$5,558 in duplicate payments; and
- \$28,346 that was unallowable because some purchases were not properly obligated prior to the end of the grant period; however, we made no recommendations concerning this amount because HRSA retroactively approved a no-cost extension of the project period.

In addition, Coastal lacked documentation to support about \$2 million of its nearly \$4.9 million in grant fund draws. It also drew down grant funds totaling \$217,157 after the grant period ended and before having requested and received from HRSA a no-cost extension of the project period. Coastal's lack of documentation for grant fund draws and its ability to draw grant funds after the grant period ended increased the risk that it would mismanage Federal funds.

These conditions occurred because of deficiencies in Coastal's internal controls over its financial management system.

RECOMMENDATIONS

We recommend that HRSA:

- either require that Coastal refund to the Federal Government \$785,224 in unsupported salary, fringe benefit, and administrative costs related to the IDS, the CIP, and both HIT grants or work with the grantee to determine whether any of the salary, fringe benefit, and administrative costs claimed against the Recovery Act grant were allowable;
- require Coastal to refund to the Federal government \$131,657 for unallowable indirect cost reimbursements related to the IDS and both HIT grants and \$74,428 for costs improperly charged to the 2009 and 2010 HIT grants; and
- ensure that Coastal develops written procedures for determining the allowability of expenditures, for drawing down Federal funds based on actual expenses, and for maintaining documentation to support Federal funds drawn.

COASTAL FAMILY HEALTH CENTER COMMENTS

In written comments on our draft report, Coastal generally agreed with our findings and discussed efforts it had taken or planned to take to strengthen the internal controls over its financial management system.

In regard to our finding that \$28,346 was unallowable because Coastal's documentation did not support that the purchases were properly obligated prior to the end of the grant period, Coastal said that HRSA granted a "no cost" extension of the grant's project period through June 30, 2012. Coastal said that because the grant had a new end date, the \$28,346 in expenses was allowable. Coastal's comments, except for proprietary financial information, are included in their entirety as Appendix A.

OFFICE OF INSPECTOR GENERAL RESPONSE

After we issued our draft report to Coastal for comment, Coastal gave us documents regarding its request for a no-cost extension of the project period. One of these documents was Coastal's Notice of Grant Award, dated June 4, 2012. This award granted Coastal a no-cost extension of the CIP grant's project period until June 30, 2012, which was 26 days after HRSA granted the extension. Because HRSA retroactively approved Coastal's request to extend the grant project period by 366 days, we modified our draft report recommendations accordingly.

HEALTH RESOURCES AND SERVICES ADMINISTRATION COMMENTS

In written comments on our draft report, HRSA concurred with our recommendations. HRSA said it would work with Coastal to: (1) determine the allowability of costs the OIG questioned and (2) assure that Coastal properly implements corrective actions to strengthen its financial management internal controls. HRSA's comments are included in their entirety as Appendix B.

TABLE OF CONTENTS

	<u>Page</u>
INTRODUCTION	1
BACKGROUND	1
Health Center Program	1
American Recovery and Reinvestment Act of 2009.....	1
Coastal Family Health Center.....	1
Federal Requirements for Grantees	2
OBJECTIVE, SCOPE, AND METHODOLOGY	2
Objective.....	2
Scope.....	2
Methodology.....	3
FINDINGS AND RECOMMENDATIONS	3
UNALLOWABLE EXPENDITURES CLAIMED FOR FEDERAL REIMBURSEMENT	4
Federal Requirements	4
Salary, Fringe Benefit, and Administrative Costs	5
Indirect Costs	5
Other Unallowable Grant Expenditures.....	6
PAYMENT MANAGEMENT SYSTEM DRAWS	6
Federal Requirements	6
Unsupported Payment Management System Draws.....	7
Payment Management System Draws After the Allowable Period.....	7
RECOMMENDATIONS	8
COASTAL FAMILY HEALTH CENTER COMMENTS	8
OFFICE OF INSPECTOR GENERAL RESPONSE	9
HEALTH RESOURCES AND SERVICES ADMINISTRATION COMMENTS	9
APPENDIXES	
A: COASTAL FAMILY HEALTH CENTER COMMENTS	
B: HEALTH RESOURCES AND SERVICES ADMINISTRATION COMMENTS	

INTRODUCTION

BACKGROUND

Health Center Program

The Health Centers Consolidation Act of 1996 (P.L. No. 104-299) consolidated the Health Center Program under section 330 of the Public Health Service Act (42 U.S.C. § 254b). The Health Center Program provides comprehensive primary health care services to medically underserved populations through planning and operating grants to health centers. Within the U.S. Department of Health and Human Services (HHS), the Health Resources and Services Administration (HRSA) administers the program.

The Health Center Program provides grants to nonprofit 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 commonly referred to as “section 330 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 the Capital Improvement Program (CIP), the Increased Demand for Services (IDS), and the Health Information Technology Implementation (HIT) grants.

Coastal Family Health Center

Coastal Family Health Center (Coastal) is a nonprofit organization that operates a network of nine health centers throughout Mississippi. Coastal provides medical, dental, and mental health services and is funded primarily by patient service revenues and Federal grants.

During calendar years (CY) 2009 and 2010, HRSA awarded Coastal grant funding totaling approximately \$6.3 million. Specifically:

- During CY 2009, HRSA awarded Coastal \$3.3 million in Recovery Act funds under an HIT grant (\$1.4 million) to include more clinics in Mississippi’s common medical health electronic records system, a CIP grant (\$1.3 million) to renovate four health facilities, and an IDS grant (\$596,904) to increase the number of patients provided health care within Coastal’s service area.¹

¹ The grant budget periods our audit covered were: March 1, 2009, through June 30, 2011 (includes four budget periods). Specifically, March 27, 2009, through March 26, 2011, for the IDS grant funds; June 29, 2009, through June 28, 2011, for the CIP grant funds; September 1, 2009, through August 31, 2010, for the HIT 2009 grant funds; and June 1, 2010, through May 31, 2012, for the HIT 2010 grant funds.

- During CY 2010, HRSA awarded Coastal \$3 million in Recovery Act funds under another HIT grant to include more of Coastal's clinics in the common electronic medical records (EMR) system and to enhance the existing EMR system and patient management system.

Federal Requirements for Grantees

Title 45, part 74, of the Code of Federal Regulations establishes uniform administrative requirements governing HHS grants and agreements awarded to nonprofit organizations. As a nonprofit organization in receipt of Federal funds, Coastal 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 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 expenditures in accordance with applicable Federal cost principles and the terms and conditions of the award (45 CFR § 74.21(b) (6)).

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

Our objective was to determine whether Coastal claimed costs that were allowable under the terms of the grants and applicable Federal regulations.

Scope

We reviewed Recovery Act grant expenditures totaling \$4,453,355 that Coastal claimed for Federal reimbursement for the period March 1, 2009, through June 30, 2011: \$1,245,371 CIP, \$77,867 IDS, \$1,164,624 (HIT 2009), and \$1,965,493 (HIT 2010). Additionally, we reviewed \$168,277 of CIP grant expenditures used to support a payment management system (PMS²) draw that occurred in December 2011. Therefore, the total amount reviewed was \$4,621,632. We did not perform an overall assessment of Coastal's internal control structure. Rather, we reviewed only the internal controls that pertained directly to our objective.

We performed our fieldwork at Coastal's administrative office in Biloxi, Mississippi, from July 2011 through February 2012.

² The PMS is the key system HHS uses for disbursing grant funds. PMS provides Web-based access to grantees to request grant fund disbursements and transmits those funds electronically to grantees.

Methodology

To accomplish our objective, we:

- reviewed relevant Federal laws, regulations, and guidance;
- reviewed grant applications and supporting documentation;
- interviewed Coastal's personnel to gain an understanding of its accounting system, internal controls over Federal expenditures, and activities for the grants awarded under the Recovery Act;
- reviewed Coastal's policies and procedures on accounting for funds, documenting transactions, preparing financial reports, withdrawing Federal funds, and payroll processing;
- reviewed independent auditor's reports and related financial statements for fiscal years 2008, 2009, and 2010;
- reviewed and reconciled the drawdown reports from both Coastal and HRSA for the IDS, the CIP, and both HIT grants to determine the total amount drawn for these grants; and
- reviewed expenditure support documentation, such as purchase requests, invoices, cancelled checks, contracts, and revenue and expenditure reports to determine the allowability of selected expenditures charged to the IDS, CIP, and HIT grants.

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

FINDINGS AND RECOMMENDATIONS

Coastal claimed costs that were generally allowable under the terms of the grants and applicable Federal regulations. Of the \$4,621,632 we reviewed, \$3,601,977 was allowable and \$234,431 was unallowable. We could not determine the allowability of \$785,224.

Specifically, Coastal claimed:

- \$785,224 in salary, fringe benefit, and administrative costs that were not supported by personnel activity reports of employees who worked on the grants;
- \$131,657 in indirect costs that it improperly charged to its IDS and HIT grants;

- \$74,428 in other unallowable costs consisting of \$54,875 it incurred prior to the start of the grant, \$13,995 that should have been charged to another grant, and \$5,558 in duplicate payments; and
- \$28,346 that was unallowable because some purchases were not properly obligated prior to the end of the grant period.

In addition, Coastal lacked documentation to support about \$2 million of its nearly \$4.9 million in grant fund draws. It also drew down grant funds totaling \$217,157 after the grant period ended and before having requested and received from HRSA a no-cost extension of the project period. Coastal's lack of documentation for grant fund draws and its ability to draw grant funds after the grant period ended increased its risk of mismanagement of Federal funds.

These conditions occurred because of deficiencies in Coastal's internal controls over its financial management system.

UNALLOWABLE EXPENDITURES CLAIMED FOR FEDERAL REIMBURSEMENT

Federal Requirements

Pursuant to 2 CFR part 230, Appendix A, § A.2.g., costs must be adequately documented to be allowable under an award. Pursuant to 2 CFR part 230, Appendix B, § 8.m.(2)(a), for salaries and wages to be allowable for Federal reimbursement, grantees must maintain personnel activity reports for each employee working on Federal awards. The reports must be signed by the individual employee or by a responsible supervisory official having firsthand knowledge of the activities performed by the employee to certify that the distribution of activity represents a reasonable estimate of the actual work performed by the employee during the periods covered by the reports. Budgeted estimates developed prior to the work being performed do not qualify as support for personnel activity charges. The reports must be prepared at least monthly and must coincide with one or more pay periods.

Pursuant to 2 CFR § 230, Appendix A, § E.2.b., a non-profit organization that has not previously established an indirect cost rate with a Federal agency shall submit its initial indirect cost proposal immediately after the organization is advised that an award will be made and, in no event, later than 3 months after the effective date of the award. In addition, the *HHS Grants Policy Statement* states that organizations must have or negotiate a cost rate to support a request for reimbursement of indirect costs.

Pursuant to 45 CFR § 74.21(b)(6), recipients' financial management systems shall provide for 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.

Pursuant to 45 CFR § 74.28, a recipient may charge to the grant only allowable costs resulting from obligations incurred during the funding period and any preaward costs authorized by the Federal awarding agency.

Salary, Fringe Benefit, and Administrative Costs

Coastal claimed salary, fringe benefit, and administrative costs that did not meet Federal requirements. Coastal did not have a system to document the actual time employees worked on specific grants. Instead, Coastal charged employees' time based on budgeted accounting allocations rather than on effort actually expended. Also, Coastal did not maintain personnel activity reports for employees who worked on the grant. As a result, we could not determine the allowability of all salary and fringe benefit expenses totaling \$730,009 that Coastal claimed on the IDS and both HIT grants. In addition, Coastal charged \$55,215 for administrative costs on its CIP grant that were also based on a budgeted amount and not supported by personnel activity reports.

Generally, when Coastal hired an employee, it entered the budgeted time for that employee into the spreadsheet and instructed the employee to clock in and out at the various locations worked. Regardless of where or how long the employee worked, the spreadsheet allocation (budgeted allocation) was not always changed or updated, and we found no evidence that Coastal reconciled the budgeted time in the spreadsheet to the time-clock hours employees actually worked. Coastal subsequently used the budgeted time allocation data to calculate the salary and fringe benefit costs charged to its IDS and both HIT grants.

Coastal charged \$55,215 to its CIP grant for administrative costs. Coastal calculated the CIP grant's administrative costs by allocating 25 percent of the salaries of its chief executive officer and its facilities manager. A Coastal official said that the CIP administrative costs had to be calculated in this manner because no salaries were directly charged to the CIP grant and as a result, Coastal's cost allocation system could not automatically make the calculation. The only documentation that Coastal provided to support its administrative cost claim was a spreadsheet showing the calculation.

Indirect Costs

According to 2 CFR § 230, Appendix A, § E.2.b. and *HHS Grants Policy Statement*, grantees must have an approved indirect cost rate to charge indirect costs to a grant.

Coastal claimed unallowable indirect costs totaling \$131,657. Coastal's accounting system automatically calculated and allocated indirect costs to its grants. According to a Coastal official, this system allocation had been in existence since 1999 and no one could explain the allocation. Coastal also did not request reimbursement of indirect costs in its grant application budget, and HRSA did not approve any indirect costs in Coastal's notice of awards. Furthermore, Coastal had not submitted an indirect cost proposal to the HHS Division of Cost Allocation to obtain an indirect cost rate. As a result, all of the indirect costs (\$131,657) that Coastal claimed for the IDS and both HIT grants were unallowable.

Coastal staff said that they were not aware that the submission of an indirect cost proposal or an indirect rate agreement was a Federal requirement.

Other Unallowable Grant Expenditures

Coastal claimed unallowable grant expenditures totaling \$74,428. Specifically, Coastal claimed \$54,875 for expenses incurred prior to the start of the grant period, \$13,995 in expenses that should have been charged to other grants, and \$5,558 in duplicate payments.

Coastal spent \$50,000 for consulting services to prepare the grant application and \$4,875 for a business application to the IRS prior to the start of the grant period without receiving prior approval from HRSA. Coastal charged expenditures totaling \$13,995 for technical support telephone systems, sales taxes, and software maintenance to both HIT grants that were not HIT grant expenditures. Also, Coastal paid for and charged the HIT grant twice for field engineering services, which totaled \$5,558.

Coastal officials stated that they were unaware that costs incurred prior to the start of the grant period were unallowable for Federal reimbursement. Coastal claimed “other” unallowable grant expenditures because it did not have written procedures for determining the allowability of costs.

PAYMENT MANAGEMENT SYSTEM DRAWS

Federal Requirements

Title 45, part 74, of the Code of Federal Regulations establishes uniform administrative requirements governing HHS grants and agreements awarded to nonprofit organizations. Grant payments are made through the PMS, operated by HHS’s Division of Payment Management, in accordance with Department of the Treasury and Office of Management and Budget requirements, as implemented by 45 CFR §§ 74.22 and 92.21.

According to 45 CFR § 74.21(b)(1), these financial management systems must provide for accurate, current, and complete disclosure of the financial results of each HHS-sponsored project or program. Further, 45 CFR § 74.21(b)(7) states that grantees’ systems must ensure that accounting records are supported by source documentation.

According to 45 CFR §74.22(b)(2), cash advances to a recipient organization shall: (1) be limited to the minimum amounts needed and be timed to be in accordance with the actual, immediate cash requirements of the recipient organization in carrying out the purpose of the approved program or project and (2) be as close to the actual disbursements by the recipient organization for allowable direct and indirect program costs.

According to 45 CFR § 74.25(b), recipients are required to request prior approvals for budget revisions from HHS granting agencies.

Health and Human Services Policies

Pursuant to the *HHS Grants Policy Statement*, dated January 1, 2007, Part II, *Terms and Condition of Award*, p. II-57, prior approval from a granting agency is required for any no-cost extension of the grant period. This extension will not be granted if the primary purpose of the

proposed extension would be to permit the grantee to simply use the unobligated balance of funds. All terms and conditions of the award apply during the extended period.

The HHS Division of Grants Management (DGM) allows grantees to draw funds from PMS for up to 90 days after the end of a grant period to cover expenses obligated before the grant period ended. DGM can retroactively approve extensions when grantees fail to make the request within the 90-day grace period. In instances where DGM deemed that a request for an extension would have been approved if it had been submitted timely, DGM would retroactively approve the extension and all expenditures incurred during this period are reimbursed.

Unsupported Payment Management System Draws

For selected PMS draws totaling \$4,889,353 (approximately 78 percent of the approximately \$6.3 million Recovery Act grant funds awarded), Coastal could not provide sufficient documentation to support \$2,001,504.

Specifically, Coastal could not provide supporting documentation for eight draws totaling \$1,245,663 for the two HIT grants, six draws totaling \$517,636 for the IDS grant, and three draws totaling \$238,205 for the CIP grant. In some instances, Coastal calculated the amount of the draw based on the net amount of year-to-date expenses and total grant revenue rather than actual expenses. Other times, draws were based on whether sufficient cash to cover expenses was available in Coastal's operating account or on a monthly estimate of cash needs rather than on actual Recovery Act expenditures for that grant.

Although Coastal's policies and procedures included a procedure for making electronic funds transfers, it did not specify how drawdowns should be calculated or that drawdowns should be based on actual disbursements. Therefore, each time Coastal drew funds from PMS, it used a different method to determine the amount of the draw.

Coastal's failure to maintain adequate supporting documentation increased its risk of mismanagement of Federal funds.

Payment Management System Draws After the Allowable Period

The CIP grant ended June 28, 2011, so the 90-day extension period for making draws to liquidate obligations should have ended September 2011. Without prior approval from HRSA and almost 3 months after the end of the extension period in December 2011, Coastal drew down \$217,157 for the CIP grant.

Coastal stopped making PMS draws for the CIP grant during March 2011 because it had not reconciled the CIP draws to CIP expenditures, so it was unaware of the balance of available CIP funds left to be drawn. Nevertheless, Coastal continued to make purchases for the CIP grant with its non-Federal operating funds until December 2011. Then, in December 2011, Coastal performed a reconciliation of its PMS draws for the CIP grant and determined that funds totaling \$217,157 were still available for the CIP grant, so it drew them down. Additionally in December 2011, Coastal requested from HRSA a no-cost extension of time to complete grant requirements. According to the *HHS Grants Policy Statement*, Coastal should have requested this no-cost

extension no later than 30 days before the proposed change (*HHS Grants Policy Statement*, January 1, 2007, Page II-58, *Requesting OPDIV Prior Approval*). At the conclusion of our fieldwork, HRSA had not granted Coastal's extension request.

We reviewed \$168,277 of the \$217,157 draw and found that \$55,215 was for unsupported administrative costs, which we discuss under the *Unallowable Expenditures Claimed for Federal Reimbursement* section of this report. Of the remaining \$113,062, \$84,716 was allowable based on our review of documentation, but \$28,346 was unallowable because the documentation did not support that the purchases were properly obligated prior to the end of the grant period.³

Coastal did not know the amount of funds it had available to draw from PMS because it did not reconcile its expenditures and draws in a timely manner. Coastal staff said that they were unable to perform the reconciliations because they were focused on completing the projects before the end of the grant period. Also, Coastal's policies and procedures for making electronic funds transfers did not specify how often expenditure reconciliations should be performed. Coastal's lack of a procedure for reconciling expenditures in a timely manner increased its risk of mismanagement of Federal funds.

RECOMMENDATIONS

We recommend that HRSA:

- either require that Coastal refund to the Federal Government \$785,224 in unsupported salary, fringe benefit, and administrative costs related to the IDS, the CIP, and both HIT grants or work with the grantee to determine whether any of the salary, fringe benefit, and administrative costs claimed against the Recovery Act grant were allowable;
- require Coastal to refund to the Federal government \$131,657 for unallowable indirect cost reimbursements related to the IDS and both HIT grants and \$74,428 for costs improperly charged to the 2009 and 2010 HIT grants; and
- ensure that Coastal develops written procedures for determining the allowability of expenditures, for drawing down Federal funds based on actual expenses, and for maintaining documentation to support Federal funds drawn.

COASTAL FAMILY HEALTH CENTER COMMENTS

In written comments on our draft report, Coastal generally agreed with our findings and discussed efforts it had taken or planned to take to strengthen the internal controls over its financial management system.

In regard to our finding that \$28,346 was unallowable because Coastal's documentation did not support that the purchases were properly obligated prior to the end of the grant period, Coastal

³ After we issued the draft report to Coastal, we learned that HRSA retroactively approved the no-cost extension of the project period. For this reason, we make no recommendations concerning the \$28,346.

said that it had obtained from HRSA a “no cost” extension of the grant’s project period through June 30, 2012. Coastal said that because the grant had a new end date, the \$28,346 in expenses was allowable. Coastal’s comments, except for proprietary financial information, are included in their entirety as Appendix A.

OFFICE OF INSPECTOR GENERAL RESPONSE

After we issued our draft report to Coastal for comment, Coastal gave us documents regarding its request for a no-cost extension of the project period. One of these documents was Coastal’s Notice of Grant Award, dated June 4, 2012. This award granted Coastal a no-cost extension of the CIP grant’s project period until June 30, 2012, which was 26 days after HRSA granted the extension. Because HRSA retroactively approved Coastal’s request to extend the grant project period by 366 days, we modified our draft report recommendations accordingly.

HEALTH RESOURCES AND SERVICES ADMINISTRATION COMMENTS

In written comments on our draft report, HRSA concurred with our recommendations. HRSA said it would work with Coastal to: (1) determine the allowability of costs the OIG questioned and (2) assure that Coastal properly implements corrective actions to strengthen its financial management internal controls. HRSA’s comments are included in their entirety as Appendix B.

APPENDIXES

APPENDIX A: COASTAL FAMILY HEALTH CENTER COMMENTS

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Comments Regarding the Office of Inspector General Report
Recovery Act Costs Claimed by Coastal Family Health Center Were Generally Allowable
August 1, 2012

SUMMARY OF FINDINGS

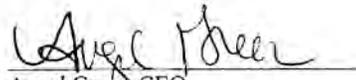
- \$785,224 – Coastal's time clock system has not proven to be user friendly in regards to preparing reports and supervisory approval of time records. We have been researching the feasibility of replacing this system. We are looking for the following features in the new system, ease of use, personnel activity documentation and approval process and have identified at least one product. We will continue to research additional products for comparison and plan to purchase a new system and implement new procedures by the first quarter of 2013.
- \$131,657 – We are currently developing written procedures to allocate additional funding sources, including earned revenue, to cover project expenses that are not approved in the grant budget as awarded. We will research the feasibility of applying for an indirect cost rate.
- \$74,428 – Development of procedures is underway to document the process for paying expenses, coding expenses and invoice checking to improve the accuracy of charging expenses and to avoid duplicate payments.
- \$28,346 – These items were requested and quotes were requested from vendors before the original end of the grant period. A No Cost Extension was filed and approved with a new grant end date of 06/30/2012 putting all of these expenses within the grant period.

Coastal is developing written policies and procedures to replace our current standard operating procedures utilized to draw grant funds and for maintaining supporting documentation and records retention. While we currently use the Grants Management System (our accounting software) to print an expense report for most grant draws, we will institute a procedure where the same report, with expense detail, will be utilized to document expenditures for each grant draw.

Additionally the grant draw in the amount of \$217,157 that occurred on December 9, 2011 is now within the grant period since the No Cost Extension was granted through June 30, 2012.

The deficiencies identified in Coastal's internal controls over its financial management system will be alleviated by the implementation of written policies and procedures that currently exist as undocumented standard operating procedures, additional training on the accounting system and development of policies and procedures that will provide for monitoring and evaluation of internal controls and accountability and transparency.

Coastal is committed to provide good stewardship of our federal funding and pledges to ensure our processes meet federal requirements.


Angel Greer, CEO

COASTAL FAMILY HEALTH CENTER is a private non-profit corporation owned by a volunteer Board of Directors representative of the communities and patients served.
Our Mission Statement:

The purpose of the Coastal Family Health Center is to provide quality health care and social services to all persons regardless of economic status with the understanding that the term health is an inclusive one that seeks to improve the quality of life of the whole community.

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



DEPARTMENT OF HEALTH & HUMAN SERVICES

Health Resources and Services
Administration

Rockville, MD 20857

SEP 12 2012

TO: Inspector General
FROM: Administrator
SUBJECT: OIG Draft Report: "Recovery Act Costs Claimed by Coastal Family Health Center Were Generally Allowable" (A-04-11-03540)

Attached is the Health Resources and Services Administration's (HRSA) response to the OIG's draft report, "Recovery Act Costs Claimed by Coastal Family Health Center Were Generally Reliable" (A-04-11-03540). If you have any questions, please contact Sandy Seaton in HRSA's Office of Federal Assistance Management at (301) 443-2432.

A handwritten signature in black ink, appearing to read "Mary K. Wakefield".

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

Attachment

**Health Resources and Services Administration's Comments on the OIG Draft Report –
"Recovery Act Costs Claimed by Coastal Family Health Center Were Generally
Allowable" (A-04-11-03540)**

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 either require that Coastal refund to the Federal Government \$785,224 in unsupported salary, fringe benefit, and administrative costs related to the IDS, the CIP, and both HIT grants or work with the grantee to determine whether any of the salary, fringe benefit, and administrative costs claimed against the Recovery Act grant were allowable.

HRSA Response:

HRSA concurs with the OIG recommendation and will work with the grantee to determine whether any of the \$785,224 in grant expenditures should be refunded.

OIG Recommendation to HRSA:

We recommend that HRSA require Coastal to refund to the Federal Government \$131,657 for unallowable indirect cost reimbursements related to the IDS and both HIT grants and \$74,428 for costs improperly charged to the 2009 and 2010 HIT grants.

HRSA Response:

HRSA concurs with the OIG recommendation and will work with Coastal to determine whether any of the \$131,657 in indirect cost reimbursements should be refunded. HRSA will also work with the grantee to determine if any costs were improperly charged to the 2009 and 2010 HIT grants and should be refunded.

OIG Recommendation to HRSA:

We recommend that HRSA ensure that Coastal develops written procedures for determining the allowability of expenditures, for drawing down Federal funds based on actual expenses, and for maintaining documentation to support Federal funds drawn.

HRSA Response:

HRSA concurs with the OIG recommendation and will work with the grantee to assure that corrective actions taken to strengthen internal controls over its financial management system are properly implemented.