

Department of Health and Human Services

**OFFICE OF  
INSPECTOR GENERAL**

**RECOVERY ACT COSTS CLAIMED BY  
HEALTH SERVICES, INC.,  
WERE GENERALLY ALLOWABLE**

*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).*



**Lori S. Pilcher  
Regional Inspector General**

**August 2012  
A-04-11-03541**

# *Office of Inspector General*

<http://oig.hhs.gov>

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# *Notices*

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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 (HHS), 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 New Access Point (NAP), Increased Demand for Services (IDS), Capital Improvement Program (CIP), and Facilities Investment Program (FIP) grants.

Health Services, Inc. (HSI), is a nonprofit agency that operates a network of ten health centers, one mobile unit, and one wellness center throughout Montgomery, Alabama. HSI provides medical, dental, mental health and pharmaceutical services and is funded primarily by patient service revenues and Federal grants.

During calendar year 2009, HRSA awarded HSI approximately \$14.3 million in Recovery Act funds. Of this amount, \$11.2 million was awarded under an FIP grant to construct a healthcare facility, \$1.3 million was awarded under a NAP grant to support the costs and services of acquiring an existing clinic, \$1.3 million was awarded under a CIP grant to establish two new rural health care sites, and \$534,744 was awarded under an IDS grant to extend the operating hours in order to increase services for new and existing patients.

HSI 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 costs that HSI claimed were allowable under the terms of the grants and applicable Federal regulations.

### SUMMARY OF FINDINGS

HSI's claimed costs generally were allowable under the terms of the grants and applicable Federal regulations. Of the \$8,519,819 we reviewed, \$8,478,463 was allowable; however,

\$41,356 was unallowable. Specifically, HSI claimed \$41,356 in unallowable salary costs because it did not always follow its policy for documenting employee time allocated to grants.

In addition, HSI sometimes used expenses that were applicable to one Recovery Act grant as support for its drawdowns from the Department's Payment Management System on another Recovery Act grant. These errors occurred because HSI did not set up its accounting system according to 45 CFR § 74.21(b)(1) and (b)(7), which requires systems to provide accurate, current, and complete disclosure of financial results and to ensure that accounting records are supported by source documentation.

## **RECOMMENDATIONS**

We recommend that HRSA:

- require HSI to refund \$41,356 to the Federal Government related to the IDS grant;
- ensure that HSI follows its policies for documenting time spent on grant activities; and
- ensure that HSI (1) develops a financial management system that provides for accurate, current, and complete disclosure of the financial results of each HHS-sponsored project or program and (2) accounts for all grant payments separately for each grant award.

## **HEALTH SERVICES, INC., COMMENTS**

In written comments on our draft report, HSI generally agreed with our findings and indicated it would make adjustments to its accounting records for the unallowable costs.

HSI said it would ensure that its internal controls are reviewed and strengthened in the future and discussed efforts it has taken to strengthen its drawdown procedures. HSI's comments, except for proprietary financial information, are included in their entirety as Appendix A.

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

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

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## 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 (Recovery Act), P.L. No. 111-5, 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 New Access Point (NAP), Increased Demand for Services (IDS), Capital Improvement Program (CIP), and Facilities Investment Program (FIP) grants.

#### Health Services, Inc.

Health Services, Inc. (HSI), is a nonprofit agency that operates a network of ten health centers, one mobile unit, and one wellness center throughout Montgomery, Alabama. HSI provides medical, dental, mental health and pharmaceutical services and is funded primarily by patient service revenues and Federal grants.

During calendar year 2009, HRSA awarded HSI approximately \$14.3 million in Recovery Act funds. Of this amount, \$11.2 million was awarded under an FIP grant to construct a healthcare facility, \$1.3 million was awarded under a NAP grant to support the costs and services of acquiring an existing clinic, \$1.3 million was awarded under a CIP grant to establish two new rural health care sites, and \$534,744 was awarded under an IDS grant to extend the operating hours in order to increase services for new and existing patients.<sup>1</sup>

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<sup>1</sup> The grant budget periods covered by our audit were: March 1, 2009, through May 31, 2011, for the NAP grant funds; March 27, 2009, through March 26, 2011, for the IDS grant funds; June 29, 2009, through June 28, 2011, for the CIP grant funds; and December 09, 2009, through December 08, 2011, for the FIP grant funds.

## **Federal Requirements for Grantees**

Title 45, part 74, of the Code of Federal regulations establish uniform administrative requirements governing HHS grants and agreements awarded to nonprofit organizations. As a nonprofit organization in receipt of Federal funds, HSI 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 reasonable, allowable, and allocable. 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)).

## **OBJECTIVE, SCOPE, AND METHODOLOGY**

### **Objective**

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

### **Scope**

We performed this limited-scope review in response to a request from HRSA. Therefore, we did not perform an overall assessment of the Health Center's internal control structure. Rather, we reviewed only the internal controls that pertained directly to our objective. We limited our review to costs the Health Center claimed for the FIP, NAP, CIP, and IDS grants during the review period March 1, 2009, through June 30, 2011. During the review period, the Health Center claimed \$6,235,547 under the FIP grant; \$1,300,000 under the NAP grant; \$1,318,060 under the CIP grant; and \$534,744 under the IDS grant, for a total of \$9,388,351. We reviewed \$8,519,819 or 91 percent of costs the Health Center claimed as of June 30, 2011.

We performed our fieldwork at HSI's administrative office in Montgomery, Alabama, from September 2011 through March 2012.

### **Methodology**

To accomplish our objective, we:

- reviewed relevant Federal laws, regulations, and guidance;
- reviewed HSI's HRSA grant applications and supporting documentation;

- interviewed HSI personnel to gain an understanding of HSI's accounting system, internal controls over Federal expenditures, and activities for the grants awarded under the Recovery Act;
- reviewed HSI's procedures on accounting for funds, documenting transactions, making estimates, preparing financial reports, withdrawing Federal funds, and payroll processing;
- reviewed HSI's independent auditor's reports and related financial statements for fiscal years 2008, 2009, and 2010;<sup>2</sup>
- judgmentally selected FIP, NAP, CIP, and IDS expenditures for review; and
- reviewed expenditure support documentation, such as purchase requests, invoices, vendor bid proposals and contracts, cancelled checks, employee time and attendance forms, employee Personnel Action Request forms, and employee time-punch reports to determine the allowability of selected expenditures charged to the NAP, IDS, CIP, and FIP 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**

HSI's claimed costs generally were allowable under the terms of the grants and applicable Federal regulations. Of the \$8,519,819 we reviewed, \$8,478,463 was allowable; however, \$41,356 was unallowable. Specifically, HSI claimed \$41,356 in unallowable salary costs because it did not always follow its policy for documenting employee time allocated to grants.

In addition, HSI sometimes used expenses that were applicable to one Recovery Act grant as support for its drawdowns from the Department's Payment Management System<sup>3</sup> (PMS) on another Recovery Act grant. These errors occurred because HSI did not set up its accounting system according to 45 CFR § 74.21(b)(1) and (b)(7), which requires systems to provide accurate, current, and complete disclosure of financial results and to ensure that accounting records are supported by source documentation.

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<sup>2</sup> HSI's fiscal year covered the period February 1 through January 31.

<sup>3</sup> The PMS is the key system HHS uses to disburse grant funds. PMS provides Web-based access to grantees to request grant fund disbursements and transmits those funds electronically to grantees.

## **FINANCIAL MANAGEMENT SYSTEM**

### **Federal Requirements**

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

### **Unallowable Salary Costs**

HSI claimed unallowable IDS grant expenditures totaling \$41,356 from May 2009 through February 2011. Specifically, HSI claimed salary costs for employees who worked during the regular operating hours<sup>4</sup> even though grant funds were supposed to be used to pay the salary costs of employees that worked outside of normal operating hours.<sup>5</sup>

HRSA awarded the IDS grant to extend the operating hours of the Lister Hill Health Center (Center) beyond the center's normal business hours on certain days of the week and the weekend. To account for time, HSI employees, used either a time clock system or a written timesheet to record time worked. In addition, each employee working on a Recovery Act grant was responsible for preparing a supplemental timesheet to record time worked on that grant. This supplemental timesheet would indicate the time that each employee worked on a Recovery Act grant so that the payroll manager could properly allocate time in HSI's accounting system.

HSI's *Policy Memo*, dated May 29, 2009, required all employees working on a Recovery Act grant to submit a supplemental time sheet in addition to their normal time sheet (or time clock report) to document time spent working on a Recovery Act grant. HSI employees did not always follow this policy. For example, while reviewing time clock records and time sheets for employees at the Center, we noted instances in which employees who worked at the Center during normal business hours did not submit a supplemental timesheet to document the hours they worked beyond the Center's normal business hours (i.e., the extended hours of the Center for which the Recovery Act IDS grant was awarded). HSI officials stated that when an employee did not submit a supplemental timesheet to indicate the extended hours worked on the IDS grant, HSI charged the entire time of that employee—whether regular hours or extended hours—to the IDS grant.

### **Drawdowns and Expenses Not Always Adequately Documented**

HSI sometimes used expenses that were applicable to one grant to support PMS drawdowns for a different grant. For example, HSI sometimes used expenses applicable to the NAP grant in support of drawdowns for the IDS grant. At other times, HSI supported NAP grant drawdowns

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<sup>4</sup> Normal business hours are defined as: Monday through Friday, 8 a.m. to 4 p.m. and Saturday, 9 a.m. to 2 p.m.

<sup>5</sup> HSI's grant application dated March 16, 2009, stated, "This proposed project will expand extended/after hours care for family medicine as follows: Monday, Wednesdays, Thursdays, & Fridays 4:30 – 10:00 pm (5½ hours) & Saturdays 2:00 – 10:00 pm (8 hrs)."

using IDS expenses. Also, we found instances in which HSI withdrew funds for expenses not recorded in the NAP general ledger. HSI did not record some expenses in the NAP general ledger because it transposed the accounting code used in the documentation supporting the drawdown. Finally, HSI used the same supporting documentation for two separate PMS withdrawals on the NAP grant.

These unallowable salary costs and inadequately documented drawdowns and expenses occurred because HSI did not set up its accounting system according to 45 CFR § 74.21(b)(1) and (b)(7), which requires systems to provide accurate, current, and complete disclosure of financial results and to ensure that accounting records are supported by source documentation.

## **RECOMMENDATIONS**

We recommend that HRSA:

- require HSI to refund \$41,356 to the Federal Government related to the IDS grant;
- ensure that HSI follows its policies for documenting time spent on grant activities; and
- ensure that HSI (1) develops a financial management system that provides for accurate, current, and complete disclosure of the financial results of each HHS-sponsored project or program and (2) accounts for all grant payments separately for each grant award.

## **HEALTH SERVICES, INC., COMMENTS**

In written comments on our draft report, HSI generally agreed with our findings and indicated it would make adjustments to its accounting records for the unallowable costs.

HSI said it would ensure that its internal controls are reviewed and strengthened in the future and discussed efforts it has taken to strengthen its drawdown procedures. HSI's comments, except for proprietary financial information, are included in their entirety as Appendix A.

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

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

# **APPENDIXES**

**APPENDIX A: HEALTH SERVICES, INC., COMMENTS**



July 2, 2012

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

RE: Report Number A-04-1103541

Dear Ms. Pilcher,

Health Services Inc (HSI) wishes to extend our warm regards and appreciation towards the OIG Audit team, led by Amy Wentz. HSI always appreciates any review which will improve upon its ability to deliver quality healthcare to its patients, while being 'good stewards' of all assets entrusted to us.

We appreciate the opportunity to serve as a longstanding grantee of DHHS, and wish to answer and clarify the various financial issues revealed in the OIG audit.

**Unallowable Salary Cost (\$41,356.21)**

Several issues need addressing regarding the Unallowable Salaries for the Increased Demand Services (IDS) Grant.

After reviewing OIG's findings, HSI, on the whole, concurs with the findings. While some amount of the Unallowable Salaries were properly charged to IDS, the majority of salaries, were misclassified in HSI's payroll & general ledger.

42% of the \$41,356 unallowable salaries (\$17,260) pertained to a single employee. The employee was hired specifically to work the IDS program, but was later utilized part-time in a 'non' IDS role. Unfortunately, the communication from management to the payroll department was not clear, and his costs were not corrected.

Another 40% of the \$41,356 unallowable salaries (\$16,663) related to three employees, who had similar scenarios as noted above. Hired and used in IDS, but later was utilized part-time, in non-IDS roles.

The remaining 18% of the \$41,356 unallowable salaries (\$7,433) related to 19 employees, whose average cost was \$391.11 / employee. These 19 employees, hired for

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IDS services, are required to attend employee orientations, EEOC, JCAHO and HSI training. HSI believes that these costs were appropriate. The OIG audit listed these 19 employees as 'issues' because they worked 'non IDS' hours. However, they could not work IDS hours, and receive the various required training at the same time. Point being, the non-IDS hours reflect required training which we believe is most appropriate.

**Conclusion**

While some of the 'unallowable salaries' are appropriate, HSI concedes and will re-class via journal entries these costs out of the IDS program. However, contrary to the findings report, HSI does have the ability to produce financial statements related solely to the IDS / NAP programs. Exhibit "A" is a Statement of Activities, related to the IDS/NAP programs, and reflects the reclassification of the unallowable costs. As the statement reflects, after removing the "unallowable salaries" via the re-class, HSI still funded program losses amounting to \$26,503 for IDS, and \$744,801 for NAP.

**Draw Down Expenses (\$4,268)**

After reviewing the various draw down expense detail, HSI concedes that \$4,268 were either inadvertently double drawn down, or misapplied. Several of the mistakes were self-discovered and corrected, but several more were not.

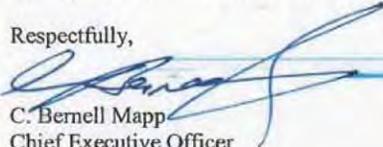
**Conclusion**

Exhibit "A" is a Statement of Activities related to the IDS & NAP programs, and reflects the reclassification of the unallowable costs. As the statement reflects, after removing the "draw down" issues via the re-class, HSI funded program losses amounting to \$26,503 for IDS, and \$744,801 for NAP.

HSI will insure that internal controls will be reviewed and strengthened in the future. One immediate procedural change to help prevent future 'draw down' oversights, we now have two persons review the 'draw down' transaction form to assure accuracy.

We appreciate the work of the OIG Audit team,

Respectfully,

  
C. Bernell Mapp  
Chief Executive Officer

Cc: Elizabeth Zyga  
John Drake

**Health Resources and Services Administration's Comments on the OIG Draft Report –  
"Recovery Act Costs Claimed By Health Services, Inc.,  
Were Generally Allowable" (A-04-11-03541)**

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 require Health Services Inc. (HSI) to refund \$41,356 to the Federal Government related to the IDS grant.

**HRSA Response:**

HRSA concurs with the OIG recommendation and will work with the grantee to determine if any IDS grant funds need to be refunded.

**OIG Recommendation to HRSA:**

We recommend that HRSA ensure that HSI follows its policies for documenting time spent on grant activities.

**HRSA Response:**

HRSA concurs with the OIG recommendation and will assist the grantee in ensuring its policies are effectively implemented to improve its tracking of HRSA grants.

**OIG Recommendation to HRSA:**

We recommend that HRSA ensure that HSI (1) develops a financial management system that provides for accurate, current, and complete disclosure of the financial results of each HHS-sponsored project or program, and (2) accounts for all grant payments separately for each grant award.

**HRSA Response:**

HRSA concurs with the OIG recommendation and will assist the grantee in ensuring its financial systems are effectively implemented to improve its tracking of HRSA grants.

APPENDIX B: HEALTH RESOURCES AND SERVICES ADMINISTRATION  
COMMENTS



DEPARTMENT OF HEALTH & HUMAN SERVICES

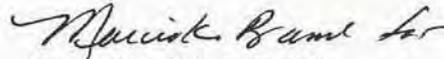
Health Resources and Services  
Administration

Rockville MD 20857

JUL 26 2012

TO: Inspector General  
FROM: Administrator  
SUBJECT: OIG Draft Report: "Recovery Act Costs Claimed by Health Services, Inc.,  
Were Generally Allowable" (A-04-11-03541)

Attached is the Health Resources and Services Administration's (HRSA) response to the OIG's draft report, "Recovery Act Costs Claimed by Health Services, Inc., Were Generally Allowable" (A-04-11-03541). If you have any questions, please contact Sandy Seaton in HRSA's Office of Federal Assistance Management at (301) 443-2432.

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

Attachment