

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**FAMILY HEALTH CENTERS, INC.,
2009 RECOVERY ACT GRANT
COSTS WERE SUPPORTED MOST
OF THE TIME**

*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

September 2012
A-04-11-07027

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.

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.”

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 Capital Improvement Program (CIP) and Increased Demand for Services (IDS) grants.

Family Health Centers, Inc. (FHC), is a nonprofit corporation that operates a network of seven health centers throughout Louisville, Kentucky. It was established by the Louisville Board of Health to provide primary and preventive health care and is funded primarily by patient service revenues and Federal grants.

During fiscal years (FY) 2009 through 2011, HRSA awarded grant funding to FHC totaling approximately \$14 million. Of this amount, HRSA awarded approximately \$11.4 million in section 330 grant funding to supplement FHC health center operations. HRSA awarded the remaining \$2.6 million in FY 2009 under the Recovery Act, which included approximately \$1.8 million under a CIP grant to remodel the Louisville-Portland health center and \$820,587 under an IDS grant to increase access and reduce barriers to health care within the Louisville-Portland service area.

In an era of increased focus on Federal expenditures and their results, it is critical that Federal agencies ensure that the organizations they fund are positioned to continue meeting program objectives and providing services. This is even more critical for agencies that fund programs intended to provide services to medically underserved and vulnerable populations. HRSA uses guidance detailed in its Bureau of Primary Health Care Policy Information Notice 2002-18 (PIN 2002-18), dated April 30, 2002, in part to evaluate the recovery of Community Health Centers operating under a financial recovery plan through the use of audited financial statements to ensure the centers’ financial stability and viability.

FHC must also 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 FHC's grant expenditures were allowable under the terms of the Recovery Act grants and applicable Federal regulations.

SUMMARY OF FINDINGS

Of the \$2,577,477 that we reviewed, FHC claimed expenditures of \$1,756,890 for the CIP grant and \$701,440 for the IDS grant that were allowable under the terms of the grants and applicable Federal regulations. However, we could not determine whether the remaining \$119,147 that FHC charged to its IDS grant as salary and fringe benefit costs was allowable. In claiming these potentially unallowable expenditures, FHC did not follow its own procedures regarding time-and-attendance approval.

RECOMMENDATIONS

We recommend that HRSA:

- either require FHC to refund \$119,147 to the Federal Government or work with FHC to determine whether any of the \$119,147 that it charged to the IDS grant was allowable and
- ensure that FHC follows its time-and-attendance approval procedures.

FAMILY HEALTH CENTERS, INC., COMMENTS

In written comments on our draft report, FHC did not concur with the first part of our recommendation that HRSA require them to refund \$119,147 in salary and fringe benefit costs charged to the IDS grant. FHC stated that, although they did not technically follow their own time-and-attendance approval procedures during a period of management transition, they legitimately incurred the cost in accordance with the grant.

FHC agreed with the second part of our first recommendation that HRSA work with it to determine whether any of the \$119,147 in salary charged to the IDS grant is allowable. Regarding our second recommendation FHC said that it has issued directives to ensure that employees follow time-and-attendance approval procedures.

OFFICE OF INSPECTOR GENERAL RESPONSE

Although FHC said that it would provide HRSA with documentation and justification to support the questioned \$119,147, FHC did not provide us with any additional information that would cause us to modify our findings or recommendations.

HEALTH RESOURCES AND SERVICES ADMINISTRATION COMMENTS

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

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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, 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 Capital Improvement Program (CIP) and Increased Demand for Services (IDS) grants.

Family Health Centers, Inc.

Family Health Centers, Inc. (FHC), is a nonprofit corporation that operates a network of seven health centers throughout Louisville, Kentucky. It was established by the Louisville Board of Health to provide primary and preventive health care and is funded primarily by patient service revenues and Federal grants.

During fiscal years (FY) 2009 through 2011, HRSA awarded grants to FHC totaling approximately \$14 million. Specifically:

- During FYs 2009 through 2011, HRSA awarded to FHC approximately \$3.8 million each year in section 330 grant funds, for a total of approximately \$11.4 million, to supplement FHC health center operations.
- During FY 2009, HRSA awarded \$2.6 million in Recovery Act funds to FHC. Of this amount, HRSA awarded approximately \$1.8 million to FHC under a CIP grant to remodel its Louisville-Portland health center and \$820,587 to FHC under an IDS grant to

increase the number of patients provided health care within the Louisville-Portland health center service area.¹

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, FHC must comply with Federal cost principles in 2 CFR part 230, *Cost Principles for Non-Profit Organizations* (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, allocable, and otherwise 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 FHC's grant expenditures were allowable under the terms of the Recovery Act grants and applicable Federal regulations.

Scope

We reviewed FHC grant expenditures totaling \$2,577,477. Of this amount, FHC charged \$1,756,890 to the CIP grant for the period of June 29, 2009, through June 28, 2011, and \$820,587 to the IDS grants for the period of March 27, 2009, through March 26, 2011.

We performed our fieldwork at FHC's Portland administrative office in Louisville, Kentucky, during August 2011.

Methodology

To accomplish our objective, we:

- reviewed relevant Federal laws, regulations, and guidance;

¹ The grant budget periods our audit covered were June 29, 2009, through June 28, 2011, for CIP grant funds and March 27, 2009, through March 26, 2011, for IDS grant funds.

- reviewed FHC’s HRSA grant applications and supporting documentation;
- interviewed FHC personnel to gain an understanding of FHC’s accounting system, internal controls over Federal expenditures, and IDS and CIP grant activities;
- reviewed FHC’s procedures on accounting for funds, documenting transactions, contract bidding and procurement, withdrawing of Federal funds, and payroll processing;
- reviewed FHC’s independent auditor reports, management letters, and related financial statements for FYs 2009 and 2010;
- reviewed to determine allowability documents supporting payroll expenditures claimed under the IDS grant;
- reviewed to determine allowability documents supporting materials, labor, and equipment expenditures under the CIP grant;
- selected and reviewed a judgmental sample of 30 checks totaling \$1,575,664 from FHC’s CIP grant files to determine whether:
 - the checks were supported by vendors’ invoices and documentation describing the products and services purchased for the grants,
 - the products or services related exclusively to the grant, and
 - FHC-authorized officials approved the vendors’ invoices for payment; and
- determined that it was not necessary to expand our judgmental sample of 30 checks because our review of internal controls and our substantive testing disclosed no control weaknesses or improper payments.

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

Of the \$2,577,477 that we reviewed, FHC claimed expenditures of \$1,756,890 for the CIP grant and \$701,440 for the IDS grant that were allowable under the terms of the grants and applicable Federal regulations. However, we could not determine whether the remaining \$119,147 that FHC charged to its IDS grant as salary and fringe benefit costs was allowable. In claiming these potentially unallowable expenditures, FHC did not follow its own procedures regarding time-and-attendance approval.

GRANT FUNDS NOT ADEQUATELY DOCUMENTED

Federal Requirements

Pursuant to 2 CFR part 230, Appendix A, § A.2.g., “[t]o be allowable under an award, costs must ... [b]e adequately documented.” Pursuant to 2 CFR part 230, Appendix B, § 8.m (1), charges to awards for salaries and wages, whether treated as direct or indirect costs, will be based on documented payrolls approved by the organization’s responsible officials.

Expenditures for the Increased Demand for Services Grant

FHC did not adequately document \$119,147 in salary and fringe benefit costs that it charged to the IDS grant for one physician. Therefore, we could not determine whether the costs were allowable for Federal reimbursement. Contrary to FHC’s procedures requiring supervisory approval of the hours employees work on a grant, neither the physician nor FHC’s medical supervisor had any involvement in preparing, reviewing, or certifying the physician’s time charged to the IDS grant during the last 10 months of the grant. The salary and fringe benefit expenditures for the physician were based on time-and-attendance records prepared and authorized by a medical staff secretary who had no supervisory authority or firsthand knowledge of the physician’s activities.

This potentially unallowable claim occurred because FHC did not follow its time-and-attendance approval procedures for determining the hours employees work on a grant.

RECOMMENDATIONS

We recommend that HRSA:

- either require FHC to refund \$119,147 to the Federal Government or work with FHC to determine whether any of the \$119,147 that it charged to the IDS grant was allowable and
- ensure that FHC follows its time-and-attendance approval procedures.

FAMILY HEALTH CENTERS, INC., COMMENTS

In written comments on our draft report, FHC did not concur with the first part of our recommendation that HRSA require them to refund \$119,147 in salary and fringe benefit costs charged to the IDS grant. FHC stated that, although they did not technically follow their own time-and-attendance approval procedures during a period of management transition, they legitimately incurred the cost in accordance with the grant.

FHC agreed with the second part of our first recommendation that HRSA work with it to determine whether any of the \$119,147 in salary charged to the IDS grant is allowable. Regarding our second recommendation FHC said that it has issued directives to ensure that employees follow time-and-attendance approval procedures.

OFFICE OF INSPECTOR GENERAL RESPONSE

Although FHC said that it would provide HRSA with documentation and justification to support the questioned \$119,147, FHC did not provide us with any additional information that would cause us to modify our findings or recommendations.

HEALTH RESOURCES AND SERVICES ADMINISTRATION COMMENTS

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

APPENDIXES

APPENDIX A: FAMILY HEALTH CENTERS, INC., COMMENTS



Family Health Centers

Care for your Health & Wellness

July 2, 2012

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

RE: Report Number: A-04-11-07027

Dear Ms. Pilcher:

Thank you for providing an opportunity to provide written comments related to the OIG draft report referenced above. We have reviewed the audit findings and recommendations and are pleased to note that the vast majority of the expenditures were allowable under the terms of the Recovery Act grants and applicable federal regulations.

We do not concur with the recommendation that Family Health Centers (FHC) refund \$119,147 in salary and fringe benefit costs that FHC charged to the Increased Demand for Services (IDS) grant. We acknowledge that we did not technically follow our own procedures regarding time-and-attendance approval during a period of management transition. However, we respectfully disagree with your conclusion that these costs should be disallowed.

FHC did legitimately incur additional physician salary and fringe benefit costs in order to expand primary care services to uninsured patients in accordance with the IDS grant terms and conditions. Therefore, we concur with your recommendation that HRSA work with FHC to determine whether any of the \$119,147 charged to the IDS grant is allowable. We look forward to providing HRSA with documentation and justification to support these expenditures.

Finally, as recommended in the report, FHC has issued directives to ensure that we follow our time-and-attendance approval procedures in all circumstances.

Sincerely,

William B. Wagner

APPENDIX B: HEALTH RESOURCES AND SERVICES
ADMINISTRATION COMMENTS



DEPARTMENT OF HEALTH & HUMAN SERVICES

Health Resources and Services
Administration

Rockville, MD 20857

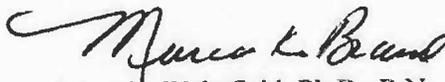
AUG 23 2012

TO: Inspector General

FROM: Administrator

SUBJECT: OIG Draft Report: "Family Health Centers, Inc., 2009 Recovery Act Grant Costs Were Supported Most of the Time" (A-04-11-07027)

Attached is the Health Resources and Services Administration's (HRSA) response to the OIG's draft report, "Family Health Centers, Inc., 2009 Recovery Act Grant Costs Were Supported Most of the Time" (A-04-11-07027). 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

**Health Resources and Services Administration's Comments on the OIG Draft Report –
“Family Health Centers, Inc., 2009 Recovery Act Grant Costs Were Supported
Most of the Time” (A-04-11-07027)**

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 FHC to refund \$119,147 to the Federal Government or work with FHC to determine whether any of the \$119,147 that it charged to the IDS grant was allowable.

HRSA Response:

HRSA concurs with the OIG recommendation and will work with the grantee to determine if any American Recovery and Reinvestment Act (ARRA) grant funds need to be refunded.

OIG Recommendation to HRSA:

We recommend that HRSA ensure that FHC follows its time-and-attendance approval procedures.

HRSA Response:

HRSA concurs with the OIG recommendation and will work with the grantee to ensure that time-and-attendance approval procedures are properly followed.
