

Department of Health and Human Services

**OFFICE OF  
INSPECTOR GENERAL**

**INTERCARE COMMUNITY  
HEALTH NETWORK CLAIMED  
UNALLOWABLE COSTS UNDER  
RECOVERY ACT GRANTS**

*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).*



**Sheri L. Fulcher  
Regional Inspector General**

**March 2013  
A-05-11-00103**

# ***Office of Inspector General***

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## 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.

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.

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), Facilities Investment Program (FIP), and Increased Demand for Services (IDS) grants.

InterCare Community Health Network (InterCare) is a community-based nonprofit organization, founded in 1972 to provide basic health care services in underserved communities. Its mission is to improve individual health by providing high quality, comprehensive community-based primary health care services.

HRSA awarded InterCare approximately \$11 million in CIP, FIP, and IDS grant funds, with grant performance periods starting as early as March 27, 2009, and ending as late as December 8, 2011. InterCare claimed approximately \$11 million under the grants as of December 2011.

Title 45, part 74, of the Code of Federal Regulations establishes uniform administrative requirements governing HHS awards to nonprofit organizations, institutions of higher education, hospitals and commercial entities. As a nonprofit organization in receipt of Federal funds, InterCare must comply with Federal cost principles in 2 CFR pt. 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.

### OBJECTIVE

Our objective was to determine whether costs claimed by InterCare were allowable under the terms of the grants and Federal regulations.

## **SUMMARY OF FINDINGS**

Of the \$4,968,154 in costs covered by our review, InterCare claimed \$4,154,902 that was allowable under the terms of the grant and applicable Federal regulations. However, InterCare claimed Federal grant expenditures totaling \$58,356 for artwork (\$35,650) and electronic health record (EHR) system implementation and training costs (\$22,706) that were unallowable under the FIP grant. We could not determine allowability of the remaining costs, totaling \$754,896, consisting of certain salary and wage costs that InterCare charged against its IDS grant.

InterCare did not ensure that its payroll distribution and financial reporting procedures complied with Federal requirements. Specifically, we determined that:

- salaries and wages were not adequately supported by personnel activity reports, and
- expenditures were allocated to unallowable activities.

## **RECOMMENDATIONS**

We recommend that HRSA:

- either require InterCare to refund \$754,896 to the Federal Government or work with InterCare to determine whether any of these costs were allowable,
- require InterCare to refund artwork costs of \$35,650,
- require InterCare to refund improper EHR system implementation and training costs of \$22,706,
- work with InterCare to resolve the selection of a sole source contractor selection, and
- require InterCare to maintain personnel activity reports in accordance with Federal regulations.

## **GRANTEE COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE**

In written comments on our draft report, InterCare disagreed with the findings that it claimed or possibly claimed unallowable costs toward the grants. InterCare did not concur with the first recommendation to refund \$754,896 to the Federal Government, claiming that the personnel costs in question were allowable and adequately documented. InterCare stated that each employee recorded their time, after-the-fact, for every two-week pay period and that these staff only performed one function as reflected on the time card. We found that InterCare did not fully maintain personnel activity reports to support salary and wage costs that it charged to the IDS grant. Although its system reflected an after-the-fact determination of activity, was

electronically signed by the employee, and prepared on at least a monthly basis, the system did not accurately record the total activity for which the employee was compensated and did not identify and segregate non-Federal activity. InterCare did not fully utilize its system for after-the-fact determination of activity for this project. We encourage InterCare to work with HRSA to determine the allowability of these costs and ensure revised policies comply with Federal regulations.

InterCare's comments 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

#### **The Health Center Program**

The Health Centers Consolidation Act of 1996 (P.L. No. 104-299) consolidated the Health Center Program under section 330 of the Public Health Service Act (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.

#### **American Recovery and Reinvestment Act 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), Facilities Investment Program (FIP), and Increased Demand for Services (IDS) grants.

#### **InterCare Community Health Network**

InterCare Community Health Network (InterCare) is a community-based nonprofit organization, founded in 1972 to provide basic health care services in underserved communities. Its mission is to improve individual health by providing high quality, comprehensive community-based primary health care services.

HRSA awarded InterCare \$10,992,676 in CIP, FIP, and IDS grant funds, with grant performance periods starting as early as March 27, 2009, and ending as late as December 8, 2011. InterCare claimed \$10,992,676 under the grants as of December 2011.<sup>1</sup>

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<sup>1</sup> Specifically, InterCare claimed \$1,737,780 under the CIP grant, \$8,500,000 under the FIP grant, and \$754,896 under the IDS grant during this period.

## **Federal Requirements for Grantees**

Title 45, part 74, of the Code of Federal Regulations establishes uniform administrative requirements governing HHS awards to nonprofit organizations, institutions of higher education, hospitals and commercial entities. As a nonprofit organization in receipt of Federal funds, InterCare must comply with Federal cost principles in 2 CFR pt. 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 be allowable. The HHS awarding agency may include additional requirements that are considered necessary to attain the award's objectives.

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

### **Objective**

Our objective was to determine whether costs claimed by InterCare were allowable under the terms of the grants and Federal regulations.

### **Scope**

We reviewed \$4,968,154<sup>2</sup> in selected costs that InterCare claimed for these grants during grant performance periods starting as early as March 27, 2009, and ending as late as December 8, 2011. We limited our review of internal controls to those that pertained directly to our objective.

We performed fieldwork at InterCare's administrative offices in Bangor, Michigan, in July 2011.

### **Methodology**

To accomplish our objective, we:

- reviewed relevant Federal laws, regulations, Notices of Awards and guidance;
- identified expended funds in InterCare's accounting records as of June 30, 2011;
- selected a judgmental sample of claimed costs based on transaction amount, description, and timing of costs;
- reconciled grant expenditures recorded in the accounting records to quarterly Recovery Act Section 1512 reports;<sup>3</sup>

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<sup>2</sup> We reviewed \$1,269,619 under the CIP grant; \$3,501,488 under the FIP grant; and \$197,047 under the IDS grant.

<sup>3</sup> The purpose of the quarterly Recovery Act Section 1512 report is for recipients to report total Recovery Act funds invoiced and received.

- compared budgeted and actual expenditures to determine whether InterCare should have requested prior approval to rebudget costs;
- reconciled grant draw downs to grant expenditures; and
- reviewed selected costs claimed under the grant for allowability.

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 \$4,968,154 in costs covered by our review, InterCare claimed \$4,154,902 that was allowable under the terms of the grant and applicable Federal regulations. However, InterCare claimed Federal grant expenditures totaling \$58,356 for artwork (\$35,650) and electronic health record (EHR) system implementation and training costs (\$22,706) that were unallowable under the FIP grant. We could not determine allowability of the remaining costs, totaling \$754,896, consisting of certain salary and wage costs that InterCare charged against its IDS grant.

InterCare did not ensure that its payroll distribution and financial reporting procedures complied with Federal requirements. Specifically, we determined that:

- salaries and wages were not adequately supported by personnel activity reports, and
- expenditures were allocated to unallowable activities.

## **UNALLOWABLE AND POTENTIALLY UNALLOWABLE EXPENDITURES CLAIMED FOR FEDERAL REIMBURSEMENT**

### **Federal Requirements**

Pursuant to 2 CFR pt. 230, Appendix A, § A.2, costs must be adequately documented to be allowable under an award. Pursuant to 2 CFR pt. 230, Appendix B, § 8.m(1), the distribution of salaries and wages must be supported by personnel activity reports, unless the cognizant agency (the Federal agency responsible for negotiating and approving indirect cost rates) has approved a substitute system in writing. The activity reports maintained by nonprofit organizations must meet the following standards:

- reflect an after-the-fact determination of the actual activity of each employee,
- account for the total activity for which each employee is compensated,

- be signed by the employee or by a responsible supervisory official having firsthand knowledge of the activities performed, and
- be prepared at least monthly and coincide with one or more pay periods.

Pursuant to 45 CFR § 74.21(b), grantees are required to maintain financial management systems that provide for, among other things:

- Accurate, current, and complete disclosure of the financial results of each HHS-sponsored project or program in accordance with the reporting requirements set forth in 45 CFR §74.52.
- Records that identify adequately the source and application of funds for HHS-sponsored activities.
- Comparison of outlays with budgeted amounts for each award.
- 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 2 CFR pt. 230, Appendix A, § A.2.a, to be allowable under an award, grantee costs must be reasonable for the performance of the award and be allocable thereto under these principles.

Pursuant to 2 CFR § 215.46, procurement records and files for purchases in excess of the small purchase threshold must include the following at a minimum: (a) basis for contractor selection; (b) justification for lack of competition when competitive bids or offers are not obtained; and (c) basis for award cost or price.

Pursuant to 2 CFR § 215.43, awards must be made to the bidder or offeror whose bid or offer is responsive to the solicitation and is most advantageous to the recipient, price, quality, and other factors considered.

## **Expenditures for the Increased Demand for Services Grant**

### *Salary and Wage Costs*

InterCare did not maintain personnel activity reports to support salary and wage costs that it charged to the IDS grant. Therefore, we could not determine whether \$754,896 in salaries and wages that InterCare charged to the IDS grant were allowable.

InterCare did not accurately record the total activity for which each employee is compensated and did not identify and segregate non-Federal activity.

## **Expenditures for the Facility Investment Program Grant**

### *Grant Requirements*

HRSA's *FIP Application Guidance*, issued June 19, 2009, and updated July 29, 2009, states that artwork is unallowable.

The *Guidance* also states that only health centers with currently operational certified electronic health record (EHR) systems may use FIP funds to purchase site licenses for the site proposed in the FIP project. HRSA's FIP Frequently Asked Questions updated August 3, 2009, states that funds cannot be expended on any approved CIP project activities and awards from FIP cannot replace funds that have been awarded for a CIP project. New EHR systems are not an allowable FIP cost; however site licenses and associated hardware for an existing certified EHR system are an allowable cost. All allowable, associated EHR purchases must be maintained at the project site.

### *Unallowable Grant Expenditures*

InterCare claimed \$35,650 for 29 pieces of artwork charged to the FIP grant. Artwork costs were not allowable under the FIP grant.

InterCare claimed costs of \$22,706 in EHR system implementation charges to the FIP grant. The EHR charges were for implementation and training hours for the new EHR system just purchased with CIP Funds. Implementation and training costs for a new EHR system were not allowed under the FIP grant.

## **Expenditures for the Capital Improvement Grant**

### *Competitive Bidding*

InterCare selected Rue Construction as the sole source general contractor for a facilities renovation project. InterCare made an effort to obtain approval from HRSA to make this selection. However, a competitive bidding process was not completed nor was written approval from HRSA obtained, as required by the CIP grant.

## **RECOMMENDATIONS**

We recommend that HRSA:

- either require InterCare to refund \$754,896 to the Federal Government or work with InterCare to determine whether any of these costs were allowable,

- require InterCare to refund artwork costs of \$35,650,
- require InterCare to refund improper EHR system implementation and training costs of \$22,706,
- work with InterCare to resolve the selection of a sole source contractor selection, and
- require InterCare to maintain personnel activity reports in accordance with Federal regulations.

## **GRANTEE COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE**

In written comments on our draft report, InterCare disagreed with the findings that it claimed or possibly claimed unallowable costs toward the grants. InterCare did not concur with the first recommendation to refund \$754,896 to the Federal Government, claiming that the personnel costs in question were allowable and adequately documented. InterCare stated that each employee recorded their time, after-the-fact, for every two-week pay period and that these staff only performed one function as reflected on the time card. We found that InterCare did not fully maintain personnel activity reports to support salary and wage costs that it charged to the IDS grant. Although its system reflected an after-the-fact determination of activity, was electronically signed by the employee, and prepared on at least a monthly basis, the system did not accurately record the total activity for which the employee was compensated and did not identify and segregate non-Federal activity. InterCare did not fully utilize its system for after-the-fact determination of activity for this project. We encourage InterCare to work with HRSA to determine the allowability of these costs and ensure revised policies comply with Federal regulations.

InterCare did not concur with the second recommendation to refund \$35,650. However, InterCare acknowledged that the amounts paid for framing and artwork were not allowable under the FIP grant and stated appropriate adjustments had been made to its records. We encourage InterCare to submit supporting documentation to show these adjustments.

InterCare did not concur with the third recommendation to refund improper EHR system implementation and training costs of \$22,706. However, InterCare acknowledged that the EHR system implementation and training costs were not allowable under the FIP grant, and stated appropriate adjustments had been made to its records. We encourage InterCare to submit supporting documentation to show these adjustments.

InterCare concurred with the fourth recommendation for HRSA to work with InterCare to resolve the selection of a sole source contractor selection. InterCare contends, however, that its contractor selection was appropriate, given the timeframe for the project, the longstanding relationship with that contractor, and the fact that the cost of renovation services was competitive and consistent with Federal regulations.

InterCare did not concur with the fifth recommendation because it believes that its documentation of personnel costs complied with OMB Circular A-122. However, InterCare does agree that its time and effort policies could be revised and updated. We encourage InterCare to work with HRSA to ensure revised policies comply with Federal regulations.

InterCare's comments 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: GRANTEE COMMENTS

November 16, 2012

Ms. Sheri Fulcher  
Regional Inspector General for Audit Services  
DHHS/Office of Inspector General  
Office of Audit Services, Region V  
233 North Michigan, Suite 1360  
Chicago, IL 60601

Re: Report Number: A-05-11-00103

Dear Ms. Fulcher:

I am in receipt of your draft report entitled "InterCare Community Health Network Claimed Unallowable Costs Under Recovery Act Grants."

On behalf of the Board of Directors of InterCare Community Health Network (InterCare), I want to thank you for the opportunity to respond and provide comments on the recommendations included in the draft report.

InterCare is very appreciative for access to funds through the Recovery Act grants and the resulting benefits for the patients we serve in six counties in southwest Michigan. We feel very strongly that InterCare met the obligations set forth in the applicable notices of grant awards, achieved the objectives of the grants, and appropriately utilized the federal dollars that were entrusted to us. We disagree with the findings that InterCare claimed or possibly claimed unallowable costs toward the grants.

Please see the attached detailed response to each recommendation.

Please let me know if you have further questions or need additional information. I can be reached at (269) 427-7937 or [Velma@intercare.org](mailto:Velma@intercare.org).

Sincerely,

Velma Hendershott

Chief Executive Officer

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**Recommendation 1 to HRSA:** “Either require InterCare to refund \$754,896 to the Federal Government or work with InterCare to determine whether any of these costs were allowable.”

InterCare does not agree with this recommendation, as the personnel costs in question were allowable and adequately documented. Accordingly, InterCare asks that this recommendation be removed.

A. Background

In response to likely increases in the uninsured and underinsured populations served by Section 330 grantees, the Health Resources and Services Administration (“HRSA”) made supplemental grants to Section 330 Health Centers under the Increased Demand for Services (“IDS”) program, starting in March of 2009. Health Centers could submit an application to use IDS funding for any of the following purposes: adding new providers, expanding hours of operation, and/or expanding existing health center services.

In our March 16, 2009 application for IDS funds, InterCare proposed to use IDS funds for several purposes. First, we proposed new personnel for our largest site, in Benton Harbor, which is the most economically deprived community in our service area. We proposed one new full-time family practice physician to meet growing demand for primary care services, and a new clinical support staff member focusing on prenatal services to ensure that InterCare’s pregnant patients were timely enrolled. The Benton Harbor site also houses our largest prenatal program, and the enrollment of pregnant patients at the site was becoming backlogged due to insufficient resources.

Second, we proposed to recruit a new part-time midlevel provider to address seasonal surges in migrant demand for services. InterCare proposed to use the new seasonal midlevel provider to add two new shifts per week on our mobile medical unit during the migrant season and an additional evening and weekend shift at our largest fixed migrant site, in Eau Claire.

We also explained in our application that we had recently been forced to lay off one dental assistant (whose services were needed) due to budget constraints, and six more support positions had been tentatively slated for layoff. We proposed to use the IDS funding to retain these needed support personnel.

We estimated that with the above activities, we would create or retain 8.5 full-time equivalent (“FTE”) positions and would serve 4,200 unduplicated new patients (4,000 uninsured patients) over the grant period.

InterCare received an IDS grant in the amount of our full IDS allotment, \$753,896.00, for a two-year project period (March 27, 2009 through March 26, 2011).

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We acted consistently with our IDS grant application and used the IDS funds to successfully expand services in the following ways:

- In the Benton Harbor site, InterCare recruited hired a new family practice physician and a new support worker for the prenatal program, as proposed in our application. As a result, we served 5,049 new primary care patients.
- InterCare also achieved our goal of adding clinicians and extending hours in our mobile medical unit and our site (Eau Claire) that primarily serve migrant patients. We hired a seasonal physician's assistant to serve these sites, as stated in our application. We were able to serve 8,287 new patients in the Eau Claire site and the mobile medical unit over the grant period.
- InterCare's operations were dramatically and unexpectedly affected in 2009 by cuts in the Michigan State Medicaid program, particularly the elimination of the non-emergency dental benefit for adults. As a result, InterCare experienced a surge in uninsured dental patients. We accordingly reported to HRSA that we intended to adjust our proposed use of funds to retain new dentists and dental assistants. The IDS funding supported the hiring or retention of 2.1 FTE dental assistants and .3 FTE dentist.

In total, the IDS funding supported the creation or retention of approximately the same number of FTEs (8.5) we projected in our application. The number of FTEs whose salary and fringe benefits costs were supported by the grant funds varied between 7.4 and 10.9 from quarter to quarter during the project period.

The positions that we created or saved have significantly improved our patients' access to care and InterCare's stability. As a result of IDS funding, InterCare was able to serve 8,669 new medical patients and 4,667 new dental patients during the grant period – exceeding the goals set forth in the application. Of the new patients served, 7,479 were particularly vulnerable because they were uninsured.

The service expansions that InterCare implemented with IDS funding resulted in 44,430 additional patient visits during the two-year grant period. Consistent with the goals of the Health Center program, the IDS funding made a significant and positive impact on the health of the residents of southwest Michigan.

**B. Documentation of Personnel Cost under OMB Circular A-122**

The draft audit finding stated: "InterCare did not maintain personnel activity reports to support salary and wage costs that it charged to the IDS grant. Therefore, we could not determine whether \$754,896 in salaries and wages that InterCare charged to the IDS grant were allowable."

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While we agree that our time and effort reporting policy could be revised and updated, we do not agree that the salaries and wages charged to the IDS grant were unsupported under the standards found in OMB Circular A-122. Each employee (1) recorded their time after the fact every two-week pay period (if not more frequently) through InterCare's time card system; and (2) performed only one function (*i.e.*, medical, dental, financial services) as reflected on the time card.

Circular A-122 requires that the distribution of salaries and wages to awards be supported by personnel activity reports for all staff members whose compensation is charged directly to awards. The personnel activity reports must satisfy the following standards:

1. reflect an after-the-fact determination of the actual activity of each employee;
2. account for the total activity for which employees are compensated;
3. be signed by the employee *or* by a supervisory official with first-hand knowledge of the employee's activities; and
4. be prepared at least monthly and coincide with pay periods.

2 C.F.R. Part 230, App. B, para. 8.m.2(a)-(d).

InterCare uses the Attendance Enterprise timekeeping and payroll system. Per InterCare policies, employees record their time after-the-fact on an electronic time card within the Attendance Enterprise system. All InterCare employees are required to enter their time on the time card at least on a bi-weekly basis for time worked during the *previous* two-week period. By submitting the electronic time card, the employee certifies that he or she has performed work (or taken leave) during the time range identified on the time card. The captured/reported time for each employee must be reviewed and authorized by that employee's supervisor prior to submission to the Attendance Enterprise system.

The time cards reflect a determination of the employee's actual activity. Each time card lists the program (*e.g.*, dental, medical, financial services) in which the employee works and the location where the work took place for the two-week period covered. By signing the time card, the employee confirms that he or she has carried out the duties described in his or her position description.

We believe that InterCare's time card system meets the requirements of OMB Circular A-122, for the following reasons:

1. The time card is completed after-the-fact by the employee every two weeks, thus meeting the requirement for contemporaneous documentation of time;
2. The time card accounts for all of the activity of each IDS employee;

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3. The time card is completed and certified by the employee via an electronic time card system and authorized by the employee's supervisor, meeting the signature requirement;
4. The time card is completed bi-weekly, coinciding with payroll, thus meeting the requirement that the time cards be completed at least monthly.

In short, we believe that InterCare adequately documented the time of employees whose salaries were charged to the IDS grant as required by OMB Circular A-122 and we ask that OIG's preliminary finding on this topic be removed.

**Recommendation 2 to HRSA:** "Require InterCare to refund artwork costs of \$35,650."

In our correspondence in June of this year with Ms. Sobota about OIG's tentative audit findings, we acknowledged that the amounts paid to Gemini Moulding for framing and artwork were not allowable under the Facility Investment Program ("FIP") grant. We have made appropriate adjustments to our records to reflect this fact.

**Recommendation 3 to HRSA:** "Require InterCare to refund improper EHR system implementation and training costs of \$22,706."

Similarly, we acknowledged in our correspondence with Ms. Sobota in June that the EHR system implementation and training costs were not allowable under the FIP grant. We have made appropriate adjustments to our records to reflect this fact.

**Recommendation 4 to HRSA:** "Work with InterCare to resolve the selection of a sole source contractor selection."

We believe that contracting with Rue Construction was appropriate, given our tight timeframe for the project, our longstanding relationship with that contractor, and the fact that the rate per square foot for the renovation services was competitive and believe our actions were consistent with the requirements of 45 C.F.R. §74.40 through §74.48. We look forward to working with HRSA to resolve any questions that it may have about this procurement.

**Recommendation 5 to HRSA:** "Require InterCare to maintain personnel activity reports in accordance with Federal regulations."

As detailed above in our response concerning Recommendation 1, we believe that InterCare's documentation of personnel costs complied with Circular A-122. As noted above, we do agree that our time and effort policies could be revised and updated and look forward to working with HRSA to ensure that our revised policies comply with all federal rules.

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



DEPARTMENT OF HEALTH & HUMAN SERVICES

Health Resources and Services  
Administration

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Rockville MD 20857

JAN 11 2013

TO: Inspector General

FROM: Administrator

SUBJECT: OIG Draft Report: "InterCare Community Health Network Claimed Unallowable Costs Under Recovery Act Grants" (A-05-11-00103)

Attached is the Health Resources and Services Administration's (HRSA) response to the OIG's draft report, "InterCare Community Health Network Claimed Unallowable Costs Under Recovery Act Grants" (A-05-11-00103). 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 –  
“InterCare Community Health Network Claimed Unallowable Costs Under Recovery Act  
Grants” (A-05-11-00103)**

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

**OIG Recommendation to HRSA:**

We recommend that HRSA either require InterCare to refund \$754,896 to the Federal Government or work with InterCare to determine whether any of these costs were allowable.

**HRSA Response:**

HRSA concurs with the OIG recommendation and will work with InterCare to determine whether any of these costs charged against the HRSA grants were allowable.

**OIG Recommendation to HRSA:**

We recommend that HRSA require InterCare to refund artwork costs of \$35,650.

**HRSA Response:**

HRSA concurs with the OIG recommendation and will work with InterCare to determine the amount of unallowable costs and require that such amount be refunded to the federal government.

**OIG Recommendation to HRSA:**

We recommend that HRSA require InterCare to refund improper EHR system implementation and training costs of \$22,706.

**HRSA Response:**

HRSA concurs with the OIG recommendation and will work with InterCare to determine the amount of unallowable costs and require that such amount be refunded to the federal government.

**OIG Recommendation to HRSA:**

We recommend that HRSA work with InterCare to resolve the selection of a sole source contractor selection.

**HRSA Response:**

HRSA concurs with the OIG recommendation and will work with InterCare to resolve the selection of a sole source contractor.

**OIG Recommendation to HRSA:**

We recommend that HRSA require InterCare to maintain personnel activity reports in accordance with Federal regulations.

**HRSA Response:**

HRSA concurs with the OIG recommendation and will ensure that InterCare maintains personnel activity reports in accordance with federal regulations.