

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**CHERRY STREET HEALTH
SERVICES 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.*



**Sheri L. Fulcher
Regional Inspector General**

**March 2013
A-05-12-00008**

Office of Inspector General

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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.

The Health Center Program provides grants to non-profit private or public entities that serve designated medically underserved populations and areas, as well as vulnerable populations of migrant and seasonal farm workers, the homeless, and residents of public housing.

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.

Cherry Street Health Services (Cherry Street) is a non-profit organization offering comprehensive health services to low-income children and families. Its mission is to improve the health and wellness of individuals by providing comprehensive primary and behavioral health care while encouraging access by those who are underserved.

HRSA awarded Cherry Street \$2,433,168 in CIP and IDS grant funds, with grant performance periods starting as early as March 27, 2009, and ending as late as December 31, 2011. Cherry Street claimed \$2,433,168 under the grants as of September 30, 2011.

Title 45, part 74, of the Code of Federal Regulations establishes uniform administrative requirements governing HHS awards to non-profit organizations, institutions of higher education, hospitals and commercial entities. As a non-profit organization in receipt of Federal funds, Cherry Street 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

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

SUMMARY OF FINDINGS

Of the \$1,200,794 in costs covered by our review, Cherry Street claimed \$1,036,511 that was allowable under the terms of the grant and applicable Federal regulations. However, Cherry Street claimed Federal grant expenditures totaling \$30,407 that were unallowable. The unallowable costs consist of salaries and wages (\$17,491), fringe benefits (\$8,633), supplies (\$3,596), travel (\$426), and meals (\$261). We could not determine the allowability of the remaining costs, totaling \$133,876, consisting of certain salary and wage costs that Cherry Street charged against its IDS grant.

Cherry Street 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,
- expenditures were allocated to employees who did not work on the grants,
- expenditures were calculated incorrectly, and
- expenditures were not adequately supported by receipts.

RECOMMENDATIONS

We recommend that HRSA:

- either require Cherry Street to refund \$133,876 to the Federal Government or work with Cherry Street to determine whether any of these costs were allowable,
- require Cherry Street to refund salary and wage costs of \$17,491,
- require Cherry Street to refund fringe benefit costs of \$8,633,
- require Cherry Street to refund supply costs of \$3,596,
- require Cherry Street to refund travel costs of \$426,
- require Cherry Street to refund meal costs of \$261, and
- require Cherry Street 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, Cherry Street agreed with the report findings and has taken corrective action to resolve the noted issues. However, Cherry Street did not concur with the first recommendation to refund \$133,876 to the Federal Government. Cherry Street stated that documentation is available to support the actual activity of the medical providers. The medical providers charged time was spent solely on health care services and their time was not split to any other funding services. However, we found that Cherry Street did not document the total activity for which the employee was compensated, or identify and segregate non-Federal activity. We encourage Cherry Street to work with HRSA to determine the allowability of these costs and ensure revised policies comply with Federal regulations.

Cherry Street'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 non-profit private or public entities that serve designated medically underserved populations and areas, as well as vulnerable populations of migrant and seasonal farm workers, the homeless, and residents of public housing.

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) and Increased Demand for Services (IDS) grants.

Cherry Street Health Services

Cherry Street Health Services (Cherry Street) is a non-profit organization offering comprehensive health services to low-income children and families. Its mission is to improve the health and wellness of individuals by providing comprehensive primary and behavioral health care while encouraging access by those who are underserved.

HRSA awarded Cherry Street \$2,433,168 in CIP and IDS grant funds, with grant performance periods starting as early as March 27, 2009, and ending as late as December 31, 2011. Cherry Street claimed \$2,433,168 under the grants as of September 30, 2011.¹

¹ Specifically, Cherry Street claimed \$1,827,555 under the CIP grant and \$605,613 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 non-profit organizations, institutions of higher education, hospitals and commercial entities. As a non-profit organization in receipt of Federal funds, Cherry Street 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 Cherry Street were allowable under the terms of the grants and Federal regulations.

Scope

We reviewed selected costs of \$959,145 under the CIP grant and \$241,649 under the IDS grant, or \$1,200,794 of the total of \$2,433,168, claimed by Cherry Street for these grants during grant performance periods starting as early as March 27, 2009, and ending as late as December 31, 2011. We limited our review of internal controls to those that pertained directly to our objective.

We performed fieldwork at Cherry Street's administrative offices in Grand Rapids, Michigan, in October and November 2011.

Methodology

To accomplish our objective, we:

- reviewed relevant Federal laws, regulations, Notices of Awards and guidance;
- identified expended funds in Cherry Street's accounting records as of September 30, 2011;
- selected and reviewed a judgmental sample of 75 transactions totaling \$1,200,794, based on transaction amount, description, and timing of costs;
- reconciled grant expenditures recorded in the accounting records to quarterly Recovery Act Section 1512 reports;²

² 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 Cherry Street 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 objectives.

FINDINGS AND RECOMMENDATIONS

Of the \$1,200,794 in costs covered by our review, Cherry Street claimed \$1,036,511 that was allowable under the terms of the grant and applicable Federal regulations. However, Cherry Street claimed Federal grant expenditures totaling \$30,407 that were unallowable. The unallowable costs consist of salaries and wages (\$17,491), fringe benefits (\$8,633), supplies (\$3,596), travel (\$426) and meals (\$261). We could not determine the allowability of the remaining costs, totaling \$133,876, consisting of certain salary and wage costs that Cherry Street charged against its IDS grant.

Cherry Street 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,
- expenditures were allocated to employees who did not work on the grants,
- expenditures were calculated incorrectly, and
- expenditures were not adequately supported by receipts.

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 non-profit 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.

Expenditures for the Increased Demand for Services Grant

Salary and Wage Costs

Cherry Street 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 \$133,876 in salaries and wages that Cherry Street charged to the IDS grant were allowable.

Cherry Street did not record, on at least a monthly basis, the actual work performed by staff and did not identify and segregate non-Federal activity.

Cherry Street made an error posting the April 2010 payroll accrual that resulted in overcharging the grant \$17,491. The monthly accrual should have been a credit for \$12,019 and not a debit for \$5,472.

Fringe Benefit Costs

Cherry Street claimed \$8,633 for fringe benefit costs charged to the IDS grant. These costs were not allocable to the grant because they were for an employee who did not work on the grant. Also, a portion of these costs were identified by Cherry Street as costs that should not be charged to the IDS grant.

Supply Costs

Cherry Street claimed \$3,596 for supply costs charged to the IDS grant that were not reasonable to be charged to the grant. An incorrect number of office visits was applied to the rate to calculate the supply costs.

Travel Costs

Cherry Street claimed \$426 for travel costs charged to the IDS grant. These costs were not allocable to the grant because they were for an employee who did not work on the grant.

Expenditures for the Capital Improvement Grant

Meal Costs

Cherry Street claimed \$261 for meals charged to the CIP grant. These costs were not adequately supported.

RECOMMENDATIONS

We recommend that HRSA:

- either require Cherry Street to refund \$133,876 to the Federal Government or work with Cherry Street to determine whether any of these costs were allowable,
- require Cherry Street to refund salary and wage costs of \$17,491,
- require Cherry Street to refund fringe benefit costs of \$8,633,
- require Cherry Street to refund supply costs of \$3,596,
- require Cherry Street to refund travel costs of \$426,

- require Cherry Street to refund meal costs of \$261, and
- require Cherry Street 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, Cherry Street agreed with the report findings and has taken corrective action to resolve the noted issues. However, Cherry Street did not concur with the first recommendation to refund \$133,876 to the Federal Government. Cherry Street stated that documentation is available to support the actual activity of the medical providers. The medical providers charged time was spent solely on health care services and their time was not split to any other funding services. However, we found that Cherry Street did not document the total activity for which the employee was compensated, or identify and segregate non-Federal activity. We encourage Cherry Street to work with HRSA to determine the allowability of these costs and ensure revised policies comply with Federal regulations.

Cherry Street'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



Cherry Street Health Services

Heart of the City Health Center
100 Cherry Street SE, Grand Rapids, MI 49503
Phone 616.965.8200 • Fax 616.940.5366

January 11, 2013

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-05-12-00008

Dear Ms. Fulcher:

I am in receipt of your draft report entitled "Cherry Street Health Services Claimed Unallowable Costs under Recovery Act Grants."

On behalf of the Board of Directors of Cherry Street Health Services (Cherry Street), I want to thank you for the opportunity to respond and provide comments on the above-referenced draft report. On balance, we agree with the findings of the report and have taken corrective action to resolve the issues identified by your office.

We do, however, take exception to the first recommendation that our funding agency, the Health Resources and Services Administration (HRSA) "[e]ither require Cherry Street to refund \$133,876 to the Federal Government or work with Cherry Street to determine whether any of these costs were allowable." While we certainly welcome the opportunity to work with HRSA to resolve any questions that it may have about the use of Recovery Act funds, we believe that this finding should be removed for the reasons discussed below.

A. Background

On March 13, 2009, Cherry Street applied to the Health Resources and Services Administration ("HRSA") for IDS funds and, in that application, proposed to use IDS funds consistently with the stated purposes of that program: adding new providers, expanding hours of operation, and/or expanding existing health center services. Specifically, we pointed out in our application that there had been extraordinary growth in our patient population, particularly



uninsured and that there was a severe shortage of dentists that serve the uninsured and underinsured in Kent County.

In response to these needs, we proposed hiring new personnel with a focus on dental services (two dentists and a hygienist) as well as one physician and other support staff. We explained that the IDS funds would help to offset the start-up costs of hiring these new providers and would also help make our current staff more efficient.

Cherry Street subsequently received an IDS grant in the amount of our full IDS allotment, \$605,613.00, for a two-year project period (March 27, 2009 through March 26, 2011) and program income of \$435,732. We used the IDS funds and program income during this two year grant period to successfully expand services by hiring the additional staff as detailed in our application. Notably, those hires included one physician, two dentists and a dental hygienist. The salaries and fringe benefits for these four positions alone exceeded the amount of the federal share of the IDS grant by over \$150,000.

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

The draft audit finding stated: "Cherry Street 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 \$133,876 in salaries and wages that Cherry Street charged to the IDS grant were allowable."

While we agree that Cherry Street did not have a document entitled "personal activity report," we believe that there is available documentation, contemporaneously prepared, of the "actual activity" of the four providers hired under the IDS grant that meets federal standards as interpreted by the HHS Departmental Appeals Board ("HHS DAB") for distributing the cost of those providers to the grant.¹

Of significance, all four providers spent their time on one activity: the provision of health care services. In other words, the physician provided medical services; the dentists and hygienist provided dental services. They did not split their time between different funding sources or activities. Thus, to charge the cost of these employees to the IDS grant, Cherry Street must have documentation consistent with the A-122 standards showing that these providers delivered health care services during the grant period. Stated otherwise, there is no need for a "distribution" of time between various activities since the providers only engaged in one activity: the delivery of health care services.

As noted in your report, to charge personnel costs to a federal grant, the grantee must have records satisfying the four documentation standards found in OMB Circular A-122. Those records must:

1. reflect an after-the-fact determination of the actual activity of each employee;

¹ The other costs of the IDS grant activities can be paid out of available program income. Those costs are not, as provided for in the Section 330 statute, subject to the requirements of Circular A-122.

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).

We believe the process that Cherry Street follows to generate and submit billable encounters meet these standards. First, the encounters are generated after health care services are provided. That is, a provider sees a patient and then signs the encounter form either by hand or electronically. Based on that form, Cherry Street generates an encounter that, if possible, is billed to a payor.² Second, this process of generating encounters provides ample verification of the actual (and total) activities of each provider on a daily basis. Third, the encounter form is signed by the provider (the employee). Finally, the encounter forms are completed after each patient visit, easily meeting the monthly preparation requirement. It is our understanding that such documentation, contemporaneously prepared, would meet the standards articulated in various decisions of the HHS DAB for alternative documentation.

In short, the process that Cherry Street follows to document patient encounters provides sufficient documentation, generated at the time the work was performed, to support Cherry Street's claim to the full amount of the federal share of the IDS grant. Accordingly, we believe that the questioned cost finding should be removed.

We would note also that the report also contains a finding that Cherry Street work with HRSA to "maintain personnel activity reports in accordance with Federal regulations." We believe this finding is sufficient to support the concerns raised by your office in its audit and we fully intend to work with HRSA to revise and update our systems for charging personnel costs to our federal awards. We simply do not believe that questioning \$133,876 in charges to the IDS grant is warranted or necessary.

Please do not hesitate to call me if you have any questions.

Sincerely,

Chris Shea

² Under Section 330, Health Centers like Cherry Street are obligated to maximize reimbursement from Medicare, Medicaid and third-party payors. However, many of Cherry Street's patients are uninsured and, in such a case, will pay reduced rates based on level of income. In all cases, encounters are counted and reported to HRSA via the "UDS" form.

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

TO: Inspector General

FROM: Administrator

SUBJECT: OIG Draft Report: "Cherry Street Health Services Claimed Unallowable Costs Under Recovery Act Grants" (A-05-12-00008)

Attached is the Health Resources and Services Administration's (HRSA) response to the OIG's draft report, "Cherry Street Health Services Claimed Unallowable Costs Under Recovery Act Grants" (A-05-12-00008). 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 –
"Cherry Street Health Services Claimed Unallowable Costs Under Recovery Act Grants"
(A-05-12-00008)**

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:

We recommend that HRSA either require Cherry Street to refund \$133,876 to the Federal Government or work with Cherry Street to determine whether any of these costs were allowable.

HRSA Response:

HRSA concurs with OIG's recommendation. HRSA will work with Cherry Street Health Services (Cherry Street) to determine the amount of unallowable costs charged against the HRSA grants.

OIG Recommendation:

We recommend that HRSA require Cherry Street to refund salary and wage costs of \$17,491.

HRSA Response:

HRSA concurs with OIG's recommendation. HRSA will work with Cherry Street to determine the amount of unallowable costs charged against the HRSA grants.

OIG Recommendation:

We recommend that HRSA require Cherry Street to refund fringe benefit costs of \$8,633.

HRSA Response:

HRSA concurs with OIG's recommendation. HRSA will work with Cherry Street to determine the amount of unallowable costs charged against the HRSA grants.

OIG Recommendation:

We recommend that HRSA require Cherry Street to refund supply costs of \$3,596.

HRSA Response:

HRSA concurs with OIG's recommendation. HRSA will work with Cherry Street to determine the amount of unallowable costs charged against the HRSA grants.

OIG Recommendation:

We recommend that HRSA require Cherry Street to refund travel costs of \$426.

HRSA Response:

HRSA concurs with OIG's recommendation. HRSA will work with Cherry Street to determine the amount of unallowable costs charged against the HRSA grants.

OIG Recommendation:

We recommend that HRSA require Cherry Street to refund meal costs of \$261.

HRSA Response:

HRSA concurs with OIG's recommendation. HRSA will work with Cherry Street to determine the amount of unallowable costs charged against the HRSA grants.

OIG Recommendation:

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

HRSA Response:

HRSA concurs with OIG's recommendation. HRSA will ensure that Cherry Street maintains personnel activity reports in accordance with federal regulations.