

Department of Health and Human Services

**OFFICE OF  
INSPECTOR GENERAL**

**LONE STAR CIRCLE OF CARE  
COMPLIED WITH FEDERAL  
REQUIREMENTS RELATED TO ITS  
AFFORDABLE CARE ACT-FUNDED  
COMMUNITY HEALTH CENTER FUND  
GRANT**

*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).*



Gloria L. Jarmon  
Deputy Inspector General  
for Audit Services

April 2015  
A-06-14-00058

# *Office of Inspector General*

<http://oig.hhs.gov>

---

The mission of the Office of Inspector General (OIG), as mandated by Public Law 95-452, as amended, is to protect the integrity of the Department of Health and Human Services (HHS) programs, as well as the health and welfare of beneficiaries served by those programs. This statutory mission is carried out through a nationwide network of audits, investigations, and inspections conducted by the following operating components:

## *Office of Audit Services*

The Office of Audit Services (OAS) provides auditing services for HHS, either by conducting audits with its own audit resources or by overseeing audit work done by others. Audits examine the performance of HHS programs and/or its grantees and contractors in carrying out their respective responsibilities and are intended to provide independent assessments of HHS programs and operations. These assessments help reduce waste, abuse, and mismanagement and promote economy and efficiency throughout HHS.

## *Office of Evaluation and Inspections*

The Office of Evaluation and Inspections (OEI) conducts national evaluations to provide HHS, Congress, and the public with timely, useful, and reliable information on significant issues. These evaluations focus on preventing fraud, waste, or abuse and promoting economy, efficiency, and effectiveness of departmental programs. To promote impact, OEI reports also present practical recommendations for improving program operations.

## *Office of Investigations*

The Office of Investigations (OI) conducts criminal, civil, and administrative investigations of fraud and misconduct related to HHS programs, operations, and beneficiaries. With investigators working in all 50 States and the District of Columbia, OI utilizes its resources by actively coordinating with the Department of Justice and other Federal, State, and local law enforcement authorities. The investigative efforts of OI often lead to criminal convictions, administrative sanctions, and/or civil monetary penalties.

## *Office of Counsel to the Inspector General*

The Office of Counsel to the Inspector General (OCIG) provides general legal services to OIG, rendering advice and opinions on HHS programs and operations and providing all legal support for OIG's internal operations. OCIG represents OIG in all civil and administrative fraud and abuse cases involving HHS programs, including False Claims Act, program exclusion, and civil monetary penalty cases. In connection with these cases, OCIG also negotiates and monitors corporate integrity agreements. OCIG renders advisory opinions, issues compliance program guidance, publishes fraud alerts, and provides other guidance to the health care industry concerning the anti-kickback statute and other OIG enforcement authorities.

# *Notices*

---

**THIS REPORT IS AVAILABLE TO THE PUBLIC**  
at <http://oig.hhs.gov>

Section 8M of the Inspector General Act, 5 U.S.C. App., requires that OIG post its publicly available reports on the OIG Web site.

## **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.

## INTRODUCTION

*Lone Star Circle of Care complied with applicable Federal requirements and grant terms related to its Affordable Care Act-funded capital development grant.*

### WHY WE DID THIS REVIEW

The Patient Protection and Affordable Care Act (ACA)<sup>1</sup> established a Community Health Center Fund administered by the Health Resources and Services Administration (HRSA) that provides \$11 billion in grant funds for the operation, expansion, and construction of community health centers nationwide. HRSA awarded Lone Star Circle of Care (Lone Star), a not-for-profit health center in central Texas, \$5 million of these funds to construct a new clinic in Bastrop, Texas.

As part of its ACA oversight activities, the Office of Inspector General is conducting a series of reviews of certain grants awarded under the Community Health Center Fund because of the risks often associated with expansion and construction projects.

### OBJECTIVE

Our objective was to determine whether Lone Star complied with applicable Federal requirements and grant terms related to its ACA-funded capital development grant.

### BACKGROUND

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

The Health Center Program is authorized under section 330 of the Public Health Service Act (42 U.S.C. § 254b). The Health Center Program provides primary health care services to medically underserved communities and vulnerable populations with limited access to health care through planning and operating grants to health centers. Within the U.S. Department of Health and Human Services (HHS), HRSA administers the Health Center Program.

#### **Patient Protection and Affordable Care Act Funding of Community Health Centers**

Section 10503 of the ACA, as amended, established a Community Health Center Fund that provides \$11 billion over a 5-year period (Federal fiscal years (FYs) 2011 through 2015) for the operation, expansion, and construction of community health centers nationwide.<sup>2</sup>

---

<sup>1</sup> P.L. No. 111-148 (Mar. 23, 2010), as amended by the Health Care and Education Reconciliation Act of 2010, P.L. No. 111-152 (Mar. 30, 2010).

<sup>2</sup> Of this amount, \$9.5 billion was targeted to support ongoing community health center operations, create new community health center sites, and expand preventive and primary health care services at existing community health center sites. The remaining \$1.5 billion was to support major construction and renovation projects at community health centers.

In FYs 2011 through 2014, HRSA awarded approximately \$1.5 billion in capital development grant funding to health centers. Capital development grants were available to address immediate and urgent capital needs or to support the cost of alteration/renovation or construction for facilities that provide health services to medically underserved communities and vulnerable populations. The grants are one-time awards, with no additional funding provided for operations.

### **Lone Star Circle of Care**

Lone Star, a not-for-profit Federally Qualified Health Center (FQHC)<sup>3</sup> network that provides pediatric and adult primary care, obstetrics and gynecology, integrated behavioral health, dental care, vision care, and pharmacy services in Central Texas, was awarded \$5 million to construct a new clinic in Bastrop, Texas. In its grant application, Lone Star projected that the center would annually provide care for 17,515 low-income patients covering 69,008 medical visits.

By accepting Community Health Center Fund grant funds, Lone Star agreed to submit updates on its grant-related activities and required reports to HRSA, including status reports on grant-established milestone construction dates and financial activities.

See Appendix A for details on the Federal requirements related to grants awarded to community health centers.

### **HOW WE CONDUCTED THIS REVIEW**

We reviewed the \$5 million capital development grant awarded by HRSA on April 19, 2012, to Lone Star under the Community Health Center Fund for the period May 1, 2012, through April 30, 2015. Specifically, we reviewed the allowability of costs totaling \$4,894,770 that Lone Star claimed for the period November 2012 through June 2014. We also reviewed \$105,230 in funds that Lone Star had budgeted but not yet claimed for the remaining grant period. Our audit also determined whether Lone Star (1) had adequate financial management controls over capital development grant funds, (2) followed procurement standards in accordance with Federal requirements for construction contracts, and (3) met grant-established project milestone dates.

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.

Appendix B contains the details of our audit scope and methodology.

---

<sup>3</sup> FQHCs are public and private nonprofit health care organizations receiving grants under section 330 of the Public Health Service Act. FQHCs qualify for enhanced reimbursement from Medicare and Medicaid, as well as other benefits. FQHCs must serve an underserved area or population, offer a sliding fee scale, provide comprehensive services, have an ongoing quality assurance program, and have a governing board of directors.

## **RESULTS OF REVIEW**

Lone Star complied with applicable Federal requirements and grant terms related to its ACA-funded capital development grant. Specifically, Lone Star had adequate financial management controls over capital development grant funds, followed procurement standards in accordance with Federal requirements, met reporting requirements in accordance with the grant's terms and conditions, and claimed allowable and reasonable costs for construction. Although Lone Star did not meet its grant-established project milestone dates, it had reasonable justification for the delays that occurred. Accordingly, this report contains no recommendations.

## **OTHER MATTERS**

The capital development grant that Lone Star received was for the construction of a clinic, which was completed in May 2014. However, as of January 2015, Lone Star had not opened the clinic or provided any services at the clinic. In progress reports submitted to HRSA, Lone Star stated that it delayed opening the clinic because of financial constraints related to initiatives outside the scope of its health center services. During May 2014, because of financial issues, Lone Star closed several of its existing clinics and significantly reduced its workforce. According to Lone Star's management, Lone Star opened the clinic on March 2, 2015, before the end of the grant project and approximately 9 months after completion of the facility.

## **LONE STAR COMMENTS**

In written comments on our draft report, Lone Star concurred with our findings and confirmed that the clinic was opened on March 2, 2015. Lone Star's comments appear in their entirety as Appendix C.

## **APPENDIX A: FEDERAL REQUIREMENTS FOR COMMUNITY HEALTH CENTER GRANTEES**

Regulations at 45 CFR § 74.27(a) require that the allowability of costs of a nonprofit organization in receipt of Federal funds be determined in accordance with OMB Circular A-122, *Cost Principles for Non-Profit Organizations* (codified at 2 CFR part 230). To be allowable, costs must be reasonable and allocable (2 CFR part 230, App. A., section A.2.a.). The grantee must also comply with the requirements for health centers in 42 U.S.C. § 254b and implementing regulations at 42 CFR part 51c.

Regulations (45 CFR § 74.21(b)(6)) require grantees to have written procedures for determining the reasonableness, allocability, and allowability of expenditures in accordance with applicable Federal cost principles and the terms and conditions of the award.

Regulations (45 CFR § 74.21(b)(2)) require recipients' financial management systems to have records that identify adequately the source and application of funds for HHS-sponsored activities. These records must contain information pertaining to Federal awards, authorizations, obligations, unobligated balances, assets, outlays, income, and interest.

Regulations (45 CFR § 74.21(b)(1)) require grantees to maintain financial management systems that provide accurate, current, and complete disclosure of the financial results of each HHS-sponsored project or program. The system must also provide accounting records that are supported by source documentation (45 CFR § 74.21(b)(7)). The system should provide effective control over and accountability for all funds, property, and other assets. Recipients must adequately safeguard all such assets and assure that they are used solely for authorized purposes (45 CFR § 74.21(b)(3)).

Regulations (45 CFR § 74.43) require that all procurement transactions be conducted in a manner to provide, to the maximum extent practical, open and free competition.

Regulations (42 CFR § 51c.112) require that all grant award payments be recorded by the grantee in accounting records separate from the records of all other funds, including funds derived from other grant awards. For each project, the grantee must account for the total of all amounts paid, as well as other funds and in-kind contributions, by presenting satisfactory evidence of expenditures for direct and indirect costs.

## **APPENDIX B: AUDIT SCOPE AND METHODOLOGY**

### **SCOPE**

We reviewed the capital development grant for \$5 million awarded on April 19, 2012, to Lone Star for the period May 1, 2012, through April 30, 2015. Specifically, we reviewed the allowability of capital development costs totaling \$4,894,770 that Lone Star claimed for the period November 2012 through June 2014. We also reviewed \$105,230 in funds that Lone Star had budgeted but not yet expended for the remaining grant period. We reviewed costs claimed on expenditure reports, construction contracts, and patient capacity and utilization.

We did not review the overall internal control structure of Lone Star or HRSA's grant management program. Rather, we reviewed only those controls related to our objective.

We performed fieldwork at Lone Star's office in Georgetown, Texas, from July to November 2014.

### **METHODOLOGY**

To accomplish our objective, we:

- reviewed applicable Federal laws, regulations, and guidance;
- met with HRSA officials to gain an understanding of the ACA community health center program and funding requirements;
- met with Lone Star officials to gain an understanding of Lone Star's accounting system, policies, and procedures for managing Federal grant funds and health center grant activities;
- obtained and reviewed Lone Star's ACA capital development grant application package, approved design documents and timeline for project completion, Notice of Grant Award documents, and applicable amendments;
- reviewed Lone Star's financial management controls, procurement policies and procedures, and construction contracts;
- reviewed costs totaling \$4.9 million invoiced by the construction contractor and claimed on grant expenditure reports, and \$105,230 that had been budgeted but not expended, to determine whether costs were properly approved for reimbursement;
- compared budgeted amounts to actual grant expenditures and analyzed discrepancies;
- identified any costs transferred to or from the grant;
- determined whether Lone Star met established milestone dates for project completion;

- determined whether Lone Star met its projected increases in patient capacity and delivery of health services;
- determined whether health services were provided as outlined by the grant's terms; and
- discussed the results of our review with Lone Star officials.

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.

## APPENDIX C: LONE STAR COMMENTS



205 East UNIVERSITY AVENUE, SUITE 200 | GEORGETOWN, TEXAS 78626  
PHONE: 512.686.0523 | FAX: 512.869.2820 | www.lscctx.org

March 17, 2015

Patricia Wheeler  
Regional Inspector General for Audit Services  
DHHS Office of Inspector General  
Office of Audit Services, Region VI  
1100 Commerce Street, Room 632  
Dallas, TX 75242

Re: OIG Report Number A-06-14-00058

Dear Ms. Wheeler,

This letter is in response to your office's draft report, dated March 4, 2015, entitled *Lone Star Circle of Care Complied with Federal Requirements Related to Its Affordable Care Act-Funded Community Health Center Fund Grant*. Lone Star Circle of Care (LSCC) concurs with the findings of this report and would like to provide additional details to clarify the statements made in the "Other Matters" section of the report.

The clinic that was constructed with the grant funding that was the focus of this report became operational on March 2, 2015, nine months after the completed construction of the facility. While the financial constraints that LSCC experienced in 2014 significantly contributed to the postponed opening of the site, we also encountered administrative delays in working with the Health Resources and Services Administration (HRSA) to reflect the site's permanently assigned address in LSCC's scope of project. At the time of our capital development grant application, an official street name had not been assigned for the lot on which the clinic was built and the permanent address was issued during the construction process. In accordance with Program Assistance Letter 2011-07, LSCC notified HRSA of the permanent address assignment beginning in June 2014, and continued to work with them on the appropriate process to complete this change until the Notice of Award reflecting the permanent address was issued January 29, 2015. Subsequently, LSCC was then able to proceed in opening the clinic on March 2, 2015.

Thank you for the opportunity to provide comments on the draft report. If you should require additional information, please do not hesitate to contact me.

Sincerely,

/Jon Calvin/

Jon Calvin, CPA, CMA, CHFP  
Chief Financial Officer