

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**ALLOWABILITY OF
RECOVERY ACT COSTS CLAIMED
BY PRIMARY HEALTH CARE, INC.,
FOR THE PERIOD JUNE 29, 2009,
THROUGH JUNE 28, 2011**

*Inquiries about this report may be addressed to the Office of Public Affairs at
Public.Affairs@oig.hhs.gov.*



**Patrick J. Cogley
Regional Inspector General**

**September 2012
A-07-11-05019**

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 8L 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.

EXECUTIVE SUMMARY

BACKGROUND

The Health Centers Consolidation Act of 1996 (P.L. No. 104-299) consolidated the Health Center Program under section 330 of the Public Health Service Act (42 U.S.C. § 254b). The Health Center Program provides comprehensive primary health care services to medically underserved populations through planning and operating grants to health centers. Within the U.S. Department of Health and Human Services (HHS), the Health Resources and Services Administration (HRSA) administers the program.

Under the American Recovery and Reinvestment Act of 2009, P.L. No. 111-5 (Recovery Act), enacted February 17, 2009, HRSA received \$2.5 billion, \$2.0 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 Increased Demand for Services (IDS), Facilities Investment Program (FIP) grants, and Capital Improvement Program (CIP) grants.

Primary Health Care, Inc. (PHC), central Iowa's only community health center, provides medical and dental services to the Des Moines, Iowa, metropolitan area and the Marshalltown, Iowa, area. Under the provisions of the Recovery Act, HRSA awarded PHC three grants totaling \$4,160,596. These grants included an IDS grant in the amount of \$515,367, a CIP grant of \$1,029,800, and a FIP grant of \$2,615,429. This report presents the results of our review of the CIP grant (number C81CS14317); we are separately reporting on the results of our reviews of the IDS and FIP grants.

OBJECTIVES

Our objectives were to determine whether costs claimed by PHC under the CIP Recovery Act grant were allowable pursuant to applicable Federal regulations and the terms of the grant, and to evaluate PHC's ability to adequately manage its property pursuant to Federal requirements and the terms of the grant.

SUMMARY OF FINDINGS

Costs claimed by PHC under the CIP Recovery Act grant were generally allowable pursuant to applicable Federal regulations and the terms of the grant. Of the \$1,029,800 that PHC claimed, \$1,029,501 was allowable pursuant to these requirements. However, PHC claimed unallowable costs of \$299 for a coffeemaker. In addition, PHC maintained a property management system that did not comply with Federal regulations because it lacked many of the required elements of information necessary to ensure adequate and accurate accountability of Federal resources.

RECOMMENDATIONS

We recommend that HRSA:

- recoup \$299 in unallowable expenditures from PHC and
- ensure that PHC complies with Federal regulations by maintaining a property management system that includes all the required elements of information.

GRANTEE COMMENTS

In written comments on our draft report, PHC referred to the unallowable expenditure for the coffeemaker as an “isolated error” which “was incorrectly recorded to the grant.” PHC also said that its property management system maintained the required elements of information “in a variety of locations/systems ...” PHC added that it would integrate these elements of information into one list within 120 days.

PHC’s comments appear in their entirety as Appendix A.

OFFICE OF INSPECTOR GENERAL RESPONSE TO GRANTEE COMMENTS

We agree that the unallowable expenditure appeared to be an isolated error which was incorrectly recorded to the grant. PHC did not make us aware, during our fieldwork, that it maintained the required elements of information for its property management system in a variety of locations and systems. We therefore continue to maintain, on the basis of the documentation provided to us during our review, that PHC generally lacked the following elements of information for its property management system: an identification number; source of the equipment, including the award number; whether the title vested in the Federal Government; information from which one could calculate the percentage of Federal participation in the cost of the equipment; the condition of the equipment; and the date the information was reported. Nevertheless, PHC agreed to integrate the required information into a single property management system.

HEALTH RESOURCES AND SERVICES ADMINISTRATION COMMENTS

In written comments on our draft report, HRSA concurred with our recommendations and said that it would ensure that PHC adheres to the corrective actions described to address our audit findings. HRSA’s comments appear in their entirety as Appendix B.

TABLE OF CONTENTS

	<u>Page</u>
INTRODUCTION	1
BACKGROUND	1
The Health Center Program	1
American Recovery and Reinvestment Act Grants	1
Primary Health Care, Inc.	1
Federal Requirements for Federal Grantees	2
OBJECTIVES, SCOPE, AND METHODOLOGY	2
Objectives	2
Scope.....	2
Methodology	2
FINDINGS AND RECOMMENDATIONS	3
UNALLOWABLE COSTS CLAIMED	3
PROPERTY MANAGEMENT SYSTEM	4
RECOMMENDATIONS	4
GRANTEE COMMENTS	5
OFFICE OF INSPECTOR GENERAL RESPONSE TO GRANTEE COMMENTS...	5
HEALTH RESOURCES AND SERVICES ADMINISTRATION COMMENTS.....	5
APPENDIXES	
A: GRANTEE COMMENTS	
B: HEALTH RESOURCES AND SERVICES ADMINISTRATION COMMENTS	

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.

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, \$2.0 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 Increased Demand for Services (IDS), Facilities Investment Program (FIP) grants, and Capital Improvement Program (CIP) grants.

Primary Health Care, Inc.

Primary Health Care, Inc. (PHC), central Iowa's only community health center, provides medical and dental services to the Des Moines, Iowa, metropolitan area and the Marshalltown, Iowa, area.

During calendar year 2009, and under the provisions of the Recovery Act, HRSA awarded PHC three grants totaling \$4,160,596:

- an IDS grant in the amount of \$515,367, awarded March 27, 2009, to increase staffing and extend existing services;
- a CIP grant of \$1,029,800, awarded June 25, 2009, to relocate the Outreach Project and Pharmacy to a larger facility in Des Moines, relocate and expand the Marshalltown dental clinic to a new site, and renovate the Marshalltown medical clinic; and
- a FIP grant of \$2,615,429, awarded October 19, 2009, to consolidate billing office space and expand space for both clinical services and administrative functions at the existing East Side Center in Des Moines.

This report presents the results of our review of the CIP grant (number C81CS14317); we are separately reporting on the results of our reviews of the IDS and FIP grants.

Federal Requirements for Federal Grantees

Title 45, part 74, of the Code of Federal Regulations (CFR) establishes uniform administrative requirements governing HHS grants and agreements awarded to nonprofit organizations. As a nonprofit organization in receipt of Federal funds, PHC 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 submitted for Federal reimbursement be allowable.

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)).

OBJECTIVES, SCOPE, AND METHODOLOGY

Objectives

Our objectives were to determine whether costs claimed by PHC under the CIP Recovery Act grant were allowable pursuant to applicable Federal regulations and the terms of the grant, and to evaluate PHC's ability to adequately manage its property pursuant to Federal requirements and the terms of the grant.

Scope

Our review included CIP Recovery Act costs totaling \$1,029,800 that PHC claimed for grant number C81CS14317 from June 29, 2009, through June 28, 2011.

We did not perform an overall assessment of PHC's internal control structure. Rather, we reviewed only the internal controls that pertained directly to our objective.

We performed fieldwork at PHC's office in Urbandale, Iowa, in September 2011.

Methodology

To accomplish our objective, we:

- reviewed relevant Federal laws, regulations, and guidance;
- reviewed HRSA's Notice of Grant Award;
- reviewed PHC's policies and procedures;

- interviewed PHC officials to gain an understanding of its accounting systems, internal controls, and implementation of the Recovery Act grant awards;
- compared PHC's total costs to funds drawn from Recovery Act grants;
- reviewed all invoices charged to the CIP grant;
- reviewed PHC's procurement contracting process used for CIP construction and renovation project contracts and verified that PHC had a Notice of Federal Interest on file for the CIP construction projects;
- reviewed PHC's property management system, in particular by reviewing all equipment charged to the CIP grant whose purchase cost exceeded \$1,000; and
- discussed the results of our audit with PHC officials on September 21, 2011.

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

Costs claimed by PHC under the CIP Recovery Act grant were generally allowable pursuant to applicable Federal regulations and the terms of the grant. Of the \$1,029,800 that PHC claimed, \$1,029,501 was allowable pursuant to these requirements. However, PHC claimed unallowable costs of \$299 for a coffeemaker. In addition, PHC maintained a property management system that did not comply with Federal regulations because it lacked many of the required elements of information necessary to ensure adequate and accurate accountability of Federal resources.

UNALLOWABLE COSTS CLAIMED

Pursuant to 2 CFR pt. 230, Appendix 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.

Contrary to these Federal requirements, PHC claimed \$299 of unallowable CIP grant costs for a coffeemaker. This expenditure was neither reasonable for the performance of the award nor allocable to the CIP grant award, and was therefore not allowable for Federal reimbursement under the terms of the grant. Further, the invoice for the coffeemaker was coded as though this cost were to be covered by PHC funds. Therefore, this expenditure was not intended to be charged to the CIP grant. Because this expenditure represented the only discrepancy we identified out of the \$1,029,800 in costs that PHC claimed and that we reviewed, we regard it as an isolated error. To the extent that we reviewed PHC's internal controls, those controls generally appeared to be adequate to safeguard and properly account for Federal grant funds.

PROPERTY MANAGEMENT SYSTEM

Pursuant to 2 CFR pt. 215.34 (f), recipients of Federal awards must maintain a property management system for equipment acquired with Federal funds. This regulation further states that the property management system shall include all of the following elements of information:

- a description of the equipment;
- manufacturer's serial number, model number, Federal stock number, national stock number, or other identification number;
- source of the equipment, including the award number;
- whether title vests in the recipient or the Federal Government;
- acquisition date (or date received, if the equipment was furnished by the Federal Government) and cost;
- information from which one can calculate the percentage of Federal participation in the cost of the equipment;
- location and condition of the equipment and the date the information was reported;
- unit acquisition cost; and
- ultimate disposition data, including date of disposal and sales price or the method used to determine current fair market value when a recipient has been compensated the Federal awarding agency for its share.

PHC did not comply with Federal requirements for property management. Our review of all equipment charged to the CIP grant whose purchase cost exceeded \$1,000 indicated that PHC's property management system lacked many of the required elements of information necessary to ensure adequate and accurate accountability of Federal resources. Specifically, the items of equipment being accounted for in PHC's property management system generally lacked the following elements of information: an identification number; source of the equipment, including the award number; whether the title vested in the Federal Government; information from which one could calculate the percentage of Federal participation in the cost of the equipment; the condition of the equipment; and the date the information was reported. PHC's property management system for these items of equipment generally contained only the purchase date, item name and description, vendor, location, and cost.

RECOMMENDATIONS

We recommend that HRSA:

- recoup \$299 for unallowable expenditures from PHC and

- ensure that PHC complies with Federal regulations by maintaining a property management system that includes all the required elements of information.

GRANTEE COMMENTS

In written comments on our draft report, PHC referred to the unallowable expenditure for the coffeemaker as an “isolated error” which “was incorrectly recorded to the grant.” PHC also said that its property management system maintained the required elements of information “in a variety of locations/systems ...” PHC added that it would integrate these elements of information into one list within 120 days.

PHC’s comments appear in their entirety as Appendix A.

OFFICE OF INSPECTOR GENERAL RESPONSE TO GRANTEE COMMENTS

We agree that the unallowable expenditure appeared to be an isolated error which was incorrectly recorded to the grant. PHC did not make us aware, during our fieldwork, that it maintained the required elements of information for its property management system in a variety of locations and systems. We therefore continue to maintain, on the basis of the documentation provided to us during our review, that PHC generally lacked the following elements of information for its property management system: an identification number; source of the equipment, including the award number; whether the title vested in the Federal Government; information from which one could calculate the percentage of Federal participation in the cost of the equipment; the condition of the equipment; and the date the information was reported. Nevertheless, PHC agreed to integrate the required information into a single property management system.

HEALTH RESOURCES AND SERVICES ADMINISTRATION COMMENTS

In written comments on our draft report, HRSA concurred with our recommendations and said that it would ensure that PHC adheres to the corrective actions described to address our audit findings. HRSA’s comments appear in their entirety as Appendix B.

APPENDIXES

APPENDIX A: GRANTEE COMMENTS



June 12, 2012

Office of Inspector General
Office of Audit Services, Region VII
601 East 12th Street, Room 0429
Kansas City, MO 64106

Re: Grantee Comments regarding Report # A-07-11-05-19

To Whom It May Concern:

Primary Health Care, Inc. is in receipt of the draft report for the CIP Recovery Act grant. We have the following comments:

The report indicated that PHC maintained a property management system that did not comply with Federal regulations because it lacked required elements. PHC maintained all required elements needed to ensure adequate and accurate accountability of Federal resources as required, however, these elements were maintained in a variety of locations/systems and there was not one list that contained all elements. As a result of this audit, and to improve our internal controls, we will integrate all required information for fixed assets into one list. This will be completed within 120 days.

As noted in the audit report, there was one isolated error in which an unallowable cost was internally coded appropriately for payment from PHC funds, however, it was incorrectly recorded to the grant. We carefully monitor grant expenditures to assure that costs incurred are allowable.

Thank you for the opportunity to comment.

Sincerely,

A handwritten signature in cursive script that reads "Kelly Huntsman".

Kelly Huntsman, Executive Director

9943 Hickman Road • Suite 105 • Urbandale, Iowa 50322-5304 • Phone 515-248-1447 • Fax 515-248-1440

Mission Statement: Primary Health Care, Inc. is a team of caring professionals providing health care and supportive services for people in Central Iowa to improve their quality of life.

iCare

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



DEPARTMENT OF HEALTH & HUMAN SERVICES

Health Resources and Services
Administration

Rockville, MD 20857

AUG 15 2012

TO: Inspector General
FROM: Administrator
SUBJECT: OIG Draft Report: "Allowability of Recovery Act Costs Claimed by Primary Health Care, Inc., for the Period June 29, 2009, Through June 28, 2011" (A-07-11-05019)

Attached is the Health Resources and Services Administration's (HRSA) response to the OIG's draft report, "Allowability of Recovery Act Costs Claimed by Primary Health Care, Inc., for the Period June 29, 2009 Through June 28, 2011" (A-07-11-05019). 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 –
"Allowability of Recovery Act Costs Claimed by Primary Health Care, Inc., for the Period
June 29, 2009, Through June 28, 2011" (A-07-11-05019)**

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 recoup \$299 for unallowable expenditures from Primary Health Care, Inc. (PHC).

HRSA Response:

HRSA concurs with the OIG recommendation and will support any recovery efforts of unallowable expenditures.

OIG Recommendation to HRSA:

We recommend that HRSA ensure that PHC complies with Federal regulations by maintaining a property management system that includes all the required elements of information.

HRSA Response:

HRSA concurs with the OIG recommendation and will assure that the proposed corrective actions are adhered to by the grantee.