

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**ALLOWABILITY OF
RECOVERY ACT COSTS CLAIMED
BY GRACE HILL NEIGHBORHOOD
HEALTH CENTERS, INC.,
FOR THE PERIOD MARCH 27, 2009,
THROUGH MARCH 26, 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-07-11-05022

Office of Inspector General

<http://oig.hhs.gov>

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OFFICE OF AUDIT SERVICES FINDINGS AND OPINIONS

The designation of financial or management practices as questionable, a recommendation for the disallowance of costs incurred or claimed, and any other conclusions and recommendations in this report represent the findings and opinions of OAS. Authorized officials of the HHS operating divisions will make final determination on these matters.

EXECUTIVE SUMMARY

BACKGROUND

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

Grace Hill Neighborhood Health Centers, Inc. (Grace Hill), is a nonprofit organization founded in 1906 that provides low-cost primary and preventive health care at six locations to primarily low-income and uninsured residents in the city of St. Louis, Missouri. Under the provisions of the Recovery Act, HRSA awarded Grace Hill two grants totaling \$2,460,075. These grants included an IDS grant in the amount of \$773,465 and a CIP grant of \$1,686,610. This report presents the results of our review of the IDS grant (number H8BCS11968); we are separately reporting on the results of our review of the CIP grant.

OBJECTIVE

Our objective was to determine whether costs claimed by Grace Hill under the IDS Recovery Act grant were allowable pursuant to applicable Federal regulations and the terms of the grant.

SUMMARY OF FINDINGS

Costs claimed by Grace Hill under the IDS Recovery Act grant were generally allowable pursuant to applicable Federal regulations and the terms of the grant. Of the \$773,465 that Grace Hill claimed, \$708,864 was allowable pursuant to these requirements. However, Grace Hill claimed unallowable costs totaling \$64,601 for drawdown amounts that were not in accordance with Federal requirements and the terms of the grant and for incorrectly claimed expenditures.

RECOMMENDATIONS

We recommend that HRSA:

- recoup \$64,601 in unallowable expenditures from Grace Hill and

- ensure that Grace Hill strengthens its internal controls by incorporating additional levels of review into the allocation of grant expenditures to ensure accuracy of costs claimed.

GRANTEE COMMENTS

In written comments on our draft report, Grace Hill agreed that \$8,227 in incorrectly claimed expenditures for consulting fees had been misclassified to the IDS grant. However, Grace Hill disagreed with our finding on \$56,374 in funds that were unallowably drawn down. Grace Hill said that it had drawn down \$55,374 from the CIP grant rather than the IDS grant due to a “clerical error.” Grace Hill stated that it had communicated with the HHS, Division of Payment Management, in attempts to correct this error and added that it did not request a formal extension because it relied on verbal instructions from the Division of Payment Management.

Grace Hill’s comments appear in their entirety as Appendix A.

OFFICE OF INSPECTOR GENERAL RESPONSE TO GRANTEE COMMENTS

After reviewing Grace Hill’s comments, we maintain that the \$56,374 in funds was unallowably drawn down. Federal regulations specify that the recipient of grant funds shall liquidate all obligations incurred under the award not later than 90 calendar days after the funding period or the date of completion. These regulations also specify that the 90-day limit for liquidation may be exceeded only if the HHS awarding agency authorizes an extension. In response to our query, HRSA stated that it was not aware of any request for extension.

HEALTH RESOURCES AND SERVICES ADMINISTRATION COMMENTS

In written comments on our draft report, HRSA concurred with both of our recommendations and said that it would ensure that Grace Hill adheres to the corrective actions described to address our audit finding. HRSA’s comments appear 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.

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) and Capital Improvement Program (CIP) grants.

Grace Hill Neighborhood Health Centers, Inc.

Grace Hill Neighborhood Health Centers, Inc. (Grace Hill), is a nonprofit organization founded in 1906 that provides low-cost primary and preventive health care at six locations to primarily low-income and uninsured residents in the city of St. Louis, Missouri.

During calendar year 2009, and under the provisions of the Recovery Act, HRSA awarded Grace Hill two grants totaling \$2,460,075:

- an IDS grant in the amount of \$773,465, awarded March 27, 2009, to increase staffing and extend existing services; and
- a CIP grant of \$1,686,610, awarded June 25, 2009, for construction, renovation, equipment purchases, and acquisition of health information technology to serve the uninsured populations.

This report presents the results of our review of the IDS grant (number H8BCS11968); we are separately reporting on the results of our review of the CIP grant.

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, Grace Hill 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)).

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

Our objective was to determine whether costs claimed by Grace Hill under the IDS Recovery Act grant were allowable pursuant to applicable Federal regulations and the terms of the grant.

Scope

Our review included IDS Recovery Act costs totaling \$773,465 that Grace Hill claimed for grant number H8BCS11968 from March 27, 2009, through March 26, 2011.

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

We performed fieldwork at Grace Hill's administrative offices in St. Louis, Missouri, in September 2011.

Methodology

To accomplish our objective, we:

- reviewed relevant Federal laws, regulations, and guidance;
- reviewed Grace Hill's Recovery Act grant application package and HRSA's Notices of Grant Award;

- reviewed Grace Hill’s policies and procedures;
- interviewed Grace Hill officials to gain an understanding of its accounting systems, internal controls, and implementation of the Recovery Act grant awards;
- compared total costs to funds drawn from Recovery Act grants; and
- discussed the results of our review with Grace Hill officials on September 30, 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 objective.

FINDINGS AND RECOMMENDATIONS

Costs claimed by Grace Hill under the IDS Recovery Act grant were generally allowable pursuant to applicable Federal regulations and the terms of the grant. Of the \$773,465 that Grace Hill claimed, \$708,864 was allowable pursuant to these requirements. However, Grace Hill claimed unallowable costs totaling \$64,601 for drawdown amounts that were not in accordance with Federal requirements and the terms of the grant and for incorrectly claimed expenditures.

UNALLOWABLE DRAWDOWN OF FUNDS

Pursuant to 45 CFR 74.71(b), the recipient of grant funds shall liquidate all obligations incurred under the award not later than 90 calendar days after the funding period or the date of completion as specified in the terms and conditions of the award or in agency implementing instructions. This Federal regulation also specifies that the 90-day limit for liquidation may be exceeded only if the HHS awarding agency (in this case, HRSA) authorizes an extension.

In September 2011, Grace Hill requested and received a drawdown of \$56,374 on its IDS grant. The grant period had ended on March 26, 2011, and therefore the last day that Grace Hill would have been allowed to draw funds was June 24, 2011. Because Grace Hill did not request an extension, it exceeded the timeframe to complete the drawdown, and any funds taken after the 90-day period were therefore unallowable.

INCORRECTLY CLAIMED EXPENDITURES

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 HRSA award guidance pertaining to IDS grants, no IDS funds may be used to support any costs related to changes to the current scope of project.

In February 2010, Grace Hill received and paid an invoice totaling \$16,942 for consulting fees for electronic health record (EHR) implementation support. Grace Hill used general funds to pay this invoice. In July 2010, Grace Hill reallocated \$8,227 of these costs to the IDS grant and subsequently drew down the same amount in grant funds based on the reallocation. Neither the application for grant funds nor the budget justification submitted by Grace Hill to HRSA contained a request for funds to implement an EHR system. Further, Grace Hill officials told us that this expenditure should not have been allocated to the IDS grant. Accordingly, Grace Hill claimed unallowable costs of \$8,227.

RECOMMENDATIONS

We recommend that HRSA:

- recoup \$64,601 in unallowable expenditures from Grace Hill and
- ensure that Grace Hill strengthens its internal controls by incorporating additional levels of review into the allocation of grant expenditures to ensure accuracy of costs claimed.

GRANTEE COMMENTS

In written comments on our draft report, Grace Hill partially agreed with our findings. With respect to the \$8,227 in incorrectly claimed expenditures for consulting fees, Grace Hill agreed that these funds had been misclassified to the IDS grant. Grace Hill added, however, that grant expenditures had exceeded the grant amount by \$6,914, and requested that this amount be deducted from the \$8,227 in determining the amount to be refunded.

In addition, Grace Hill disagreed with our finding on the \$56,374 in funds that were unallowably drawn down. Grace Hill said that in September 2010, a clerical error made while requesting funds from the HHS, Division of Payment Management (DPM), resulted in \$55,374 being taken from the CIP grant rather than the IDS grant and recorded in Grace Hill's general ledger as if taken from the IDS grant. Grace Hill also stated that DPM staff instructed Grace Hill staff on the method for correcting the quarterly reports previously filed for both grants. Grace Hill added that DPM staff instructed Grace Hill staff (in September 2011) to draw down the remaining funds from the IDS grant to close out the grant. "A formal extension was therefore not requested as [Grace Hill] staff relied upon verbal instructions from DPM and believed that DPM was authorized to make such a decision."

With respect to both of these findings, Grace Hill also described corrective actions that it would take going forward to prevent recurrence of these errors.

Grace Hill's comments appear in their entirety as Appendix A.

OFFICE OF INSPECTOR GENERAL RESPONSE TO GRANTEE COMMENTS

After reviewing Grace Hill's comments, we maintain that the \$56,374 in funds was unallowably drawn down. Federal regulations specify that the recipient of grant funds shall liquidate all obligations incurred under the award not later than 90 calendar days after the funding period or the date of completion. These regulations also specify that the 90-day limit for liquidation may be exceeded only if the HHS awarding agency authorizes an extension. In response to our query, HRSA stated that it was not aware of any request for extension.

Grace Hill's request to deduct \$6,914 from the \$8,227 in unallowable expenses will need to be considered by HRSA as part of the audit resolution process.

HEALTH RESOURCES AND SERVICES ADMINISTRATION COMMENTS

In written comments on our draft report, HRSA concurred with both of our recommendations and said that it would ensure that Grace Hill adheres to the corrective actions described to address our audit finding. HRSA's comments appear in their entirety as Appendix B.

APPENDIXES

APPENDIX A: GRANTEE COMMENTS



Grace Hill Health Centers, Inc.
Enabling Healthy, Productive Lives

2524 Hadley St.
St. Louis, Missouri 63106
Office: 314-898-1700
Appointment Line: 314-814-8700
www.gracehill.org
Alan O. Freeman, MBA, FACHE
President and Chief Executive Officer

June 25, 2012

Mr. Patrick J. Cogley
Regional Inspector General for Audit Services
Office of Audit Services, Region VII
601 East 12th Street, Room 0429
Kansas City, MO 64106

Dear Mr. Cogley:

Enclosed are comments from Grace Hill Health Centers, Inc. in response to the OIG audits which took place during the week of September 26, 2011 related to HRSA grant C81CS413988 and grant H7BCS11968. Reports from the OIG dated June 18, 2012 with Report Number A-07-11-05021 and Report Number A-07-11-05022 have been reviewed by Grace Hill Health Center, Inc. and considered in preparing these responses.

Please contact me at 314-814-8571 if you have questions or require additional information.

Sincerely,

Janet Voss, CPA
Vice President and CFO

Enclosures
-As stated





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President and Chief Executive Officer

Report A-07-11-05022

Grace Hill Health Centers, Inc
Response to OIG draft report for the Period March 27, 2009 through March 26, 2011
Grant number H7BCS11968 IDS grant

Response:

On September 20, 2010, a clerical error made while requesting funds from the Division of Payment Management's website resulted in \$55,374 being taken from the CIP grant rather than the IDS grant. Specifically, the error was made due to the labeling of the boxes (to be checked) on the website (i.e., ARRACIP-09 was checked instead of ISHC-09). This funding was recorded in the Grace Hill Health Center general ledger as if taken from the IDS grant.

In preparing the quarterly payment management reports (425 reports), the staff member responsible for the report realized the error. However, attempts at that time as well as subsequent attempts to correct the error were unsuccessful. In preparing the close-out report, \$56,374 remained available for drawdown in the IDS grant—consisting of the \$55,374 noted above plus an additional \$1,000 added to the grant after the initial NGA was awarded. It was at this point the Division of Payment Management was contacted by Grace Hill Health Center (GHHC) staff and notified of the problem.

DPM instructed GHHC staff on the method for correcting the quarterly 425 reports previously filed for both the IDS and CIP grants. Further, DPM staff instructed GHHC staff (in September 2011) to draw the remaining funds from the IDS grant to close out the grant. A formal extension was therefore not requested as GHHC staff relied upon verbal instructions from DPM and believed that DPM was authorized to make such a decision.

To prevent such an error from occurring in the future, procedures have been implemented to double-check the source of funding and to call attention to inconsistency in funding source and recording of that source in the general ledger. In addition, GHHC staff have been instructed to contact DPM immediately (rather than trying to correct the problem themselves) in the event such an error should occur.

While Grace Hill acknowledges our clerical error, we restate our attempts to correct the error through the Payment Management System, and note that expenditures were made during the grant period as prescribed by the grant award. Therefore, we respectfully disagree that we should be required to repay funds that were expended in accordance with grant guidelines

Founded by the Episcopal Church, Diocese of Missouri, in 1906 - Grace Hill Health Centers, Inc. is an equal opportunity employer.



within the period prescribed but technically drawn down from the federal government later than prescribed by 45 CFR 74.71.

Regarding the \$8,227 in EHR consulting fees erroneously classified to the IDS grant rather than to the CIP grant: Grace Hill agrees that the misclassification occurred. However, supporting documentation supplied with the FFR filed on June 20, 2011 showed total expense of \$1,388,449 charged to the grant, less program income of \$608,070; resulting in net expense of \$780,379. Thus grant expenditures exceeded the grant amount by \$6,914. Grace Hill requests that this amount be deducted from \$8,227 in determining the amount to repay.

To address this issue going forward, communications related to allowable grant expenditures are now provided to the entire accounting staff rather than to supervisory personnel only. In addition, a secondary review of general ledger coding by the CFO on all expenditures exceeding \$5,000 is now being performed.

Respectfully submitted,
Janet Voss, CPA
Grace Hill Health Centers, Inc.

**APPENDIX B: HEALTH RESOURCE 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 Grace Hill Neighborhood Health Centers, Inc., for the Period March 27, 2009, Through March 26, 2011" (A-07-11-05022)

Attached is the Health Resources and Services Administration's (HRSA) response to the OIG's draft report, "Allowability of Recovery Act Costs Claimed by Grace Hill Neighborhood Health Centers, Inc., for the Period March 27, 2009, Through March 26, 2011" (A-07-11-05022). 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 Grace Hill Neighborhood Health Centers,
Inc., for the Period March 27, 2009, Through March 26, 2011" (A-07-11-05022)**

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 \$64,601 in unallowable expenditures from Grace Hill.

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 Grace Hill strengthens its internal controls by incorporating additional levels of review into the allocation of grant expenditures to ensure accuracy of costs claimed.

HRSA Response:

HRSA concurs with the OIG recommendation and as indicated in its response to the draft report, the grantee is taking corrective actions to ensure the accuracy of costs claimed. HRSA will assure that these corrective actions are adhered to by the grantee.