

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**FAMILY HEALTH CENTERS
OF SAN DIEGO, INC.,
CLAIMED UNALLOWABLE AND
INADEQUATELY DOCUMENTED
COSTS FOR HEALTH RESOURCES
AND SERVICES ADMINISTRATION
GRANTS UNDER THE
RECOVERY ACT**

*Inquiries about this report may be addressed to the Office of Public Affairs at
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**Kay L. Daly
Assistant Inspector General**

**February 2013
A-09-11-01010**

Office of Inspector General

<https://oig.hhs.gov>

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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. This program provides comprehensive primary health care services through planning and operating grants to health centers. Health centers are nonprofit private or public entities that serve designated medically underserved populations and areas, as well as vulnerable populations of migrant and seasonal farmworkers, the homeless, and residents of public housing. Within the U.S. Department of Health and Human Services, the Health Resources and Services Administration (HRSA) administers the Health Center Program.

Under the American Recovery and Reinvestment Act of 2009 (Recovery Act), P.L. No. 111-5, 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 Health Information Technology Implementation (HITI), Capital Improvement Program (CIP), Increased Demand for Services (IDS), and New Access Point (NAP) grants.

Family Health Centers of San Diego, Inc. (Health Center), is a nonprofit organization that has 30 locations throughout San Diego County, California, and provides medical, dental, and mental health services. The Health Center is funded primarily by grants from and contracts with the State of California and county of San Diego, Federal grants, public and private health insurance programs, and patient service revenues.

During calendar years 2009 and 2010, HRSA awarded the Health Center approximately \$10.8 million in Recovery Act funds. These awards consisted of approximately \$4.8 million under two HITI grants to improve the quality of health care provided in health centers using health information technology, \$2.5 million under a CIP grant to construct a new building, approximately \$2.2 million under an IDS grant to increase services at existing sites, and \$1.3 million under an NAP grant for a new service site to improve quality of health care. We reviewed costs totaling \$7,265,876 that the Health Center claimed under these grants for the period March 1, 2009, through June 30, 2011.

As a nonprofit organization receiving Federal funds, the Health Center must comply with Federal cost principles in 2 CFR part 230, *Cost Principles for Non-Profit Organizations*. These cost principles require that grant costs claimed for Federal reimbursement be allowable and adequately documented, including the requirement that the grantee maintain signed personnel activity reports that reflect an after-the-fact determination of the actual activity of each employee working on Federal awards.

OBJECTIVE

Our objective was to determine whether the costs that the Health Center claimed were allowable in accordance with the terms of the Recovery Act grants and applicable Federal requirements.

SUMMARY OF FINDINGS

Of the \$7,265,876 in costs reviewed, \$2,726,151 was allowable in accordance with the terms of the Recovery Act grants and applicable Federal requirements. However, the Health Center claimed \$113,759 in unallowable rental costs and related indirect costs and \$4,425,966 in inadequately documented salary and salary-related costs. The salary costs were inadequately documented because the Health Center did not maintain personnel activity reports reflecting an after-the-fact determination of the actual activity of each employee. The \$4,425,966 consisted of \$3,143,490 in salaries and wages, \$727,572 in fringe benefits, and \$554,904 in indirect costs related to the salaries and wages and fringe benefits.

The Health Center claimed unallowable rental costs because its officials were unaware of the Federal requirement limiting rental costs under a “less-than-arms-length” lease to the amount that would have been allowable had title to the property vested in the Health Center. In addition, Health Center officials acknowledged that they had claimed salaries and wages on the basis of budget estimates and that the Health Center’s policies and procedures did not comply with Federal requirements.

RECOMMENDATIONS

We recommend that HRSA:

- require the Health Center to refund to the Federal Government \$113,759 for unallowable rental costs and related indirect costs,
- either require the Health Center to refund to the Federal Government \$4,425,966 for inadequately documented salary and salary-related costs or work with the Health Center to determine whether any of the costs claimed were allowable,
- educate Health Center officials on the Federal requirement limiting allowable rental costs under “less-than-arms-length” leases, and
- ensure that the Health Center maintains personnel activity reports in compliance with Federal requirements.

FAMILY HEALTH CENTERS OF SAN DIEGO, INC., COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE

In written comments on our draft report, the Health Center described how it had used its grant funding and stated that it had met or exceeded the Recovery Act grant objectives for all five grants. The Health Center also provided information in response to our finding on rental and

related indirect costs and disagreed with our finding on salary and salary-related costs. The Health Center stated that it looked forward to working with HRSA to resolve the findings. Nothing in the Health Center's comments caused us to change our findings or recommendations.

HEALTH RESOURCES AND SERVICES ADMINISTRATION COMMENTS

In written comments on our draft report, HRSA concurred with our recommendations and provided information on actions that it planned to take to address our recommendations.

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INTRODUCTION

BACKGROUND

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). This program provides comprehensive primary health care services through planning and operating grants to health centers. Health centers are nonprofit private or public entities that serve designated medically underserved populations and areas, as well as vulnerable populations of migrant and seasonal farmworkers, the homeless, and residents of public housing. Within the U.S. Department of Health and Human Services (HHS), the Health Resources and Services Administration (HRSA) administers the Health Center Program.

American Recovery and Reinvestment Act of 2009

Under the American Recovery and Reinvestment Act of 2009 (Recovery Act), P.L. No. 111-5, 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 Health Information Technology Implementation (HITI), Capital Improvement Program (CIP), Increased Demand for Services (IDS), and New Access Point (NAP) grants.

Family Health Centers of San Diego, Inc.

Family Health Centers of San Diego, Inc. (Health Center), is a nonprofit organization that has 30 locations throughout San Diego County, California, including 15 primary care clinics, 3 dental clinics, an HIV clinic, and 3 mobile medical units that provide health care services at approximately 70 community sites. The Health Center provides medical, dental, and mental health services. The Health Center is funded primarily by grants from and contracts with the State of California and the county of San Diego, Federal grants, public and private health insurance programs, and patient service revenues.

During calendar years 2009 and 2010, HRSA awarded the Health Center approximately \$10.8 million in Recovery Act funds. These awards consisted of approximately \$4.8 million under two HITI grants to improve the quality of health care provided in health centers using health information technology, \$2.5 million under a CIP grant to construct a new building, approximately \$2.2 million under an IDS grant to increase services at existing sites, and \$1.3 million under an NAP grant for a new service site to improve quality of health care.

Federal Requirements for Grantees

Federal regulations (45 CFR part 74) establish uniform administrative requirements governing HHS grants awarded to nonprofit organizations. As a nonprofit organization receiving Federal

funds, the Health Center must comply with Federal cost principles in 2 CFR part 230, *Cost Principles for Non-Profit Organizations*, incorporated by reference at 45 CFR § 74.27(a). These cost principles require that grant costs claimed for Federal reimbursement be reasonable, allocable, and otherwise allowable. The HHS awarding agency may include additional requirements that are considered necessary to attain the award's objectives.

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 costs 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 the costs that the Health Center claimed were allowable in accordance with the terms of the Recovery Act grants and applicable Federal requirements.

Scope

Of the \$10,860,240 that HRSA awarded to the Health Center, we limited our review to costs totaling \$7,265,876 that the Health Center claimed under the HITI, CIP, IDS, and NAP grants for the period March 1, 2009, through June 30, 2011.¹ We did not perform an overall assessment of the Health Center's internal controls. Rather, we reviewed only the internal controls that pertained to our objective.

We conducted our audit from August 2011 to May 2012 and performed our fieldwork at the Health Center's administrative office in San Diego, California.

Methodology

To accomplish our objective, we:

- reviewed applicable Federal laws, regulations, and guidance;
- reviewed the Health Center's HRSA grant applications and supporting documentation;
- reviewed the Health Center's federally negotiated agreements for indirect cost and fringe benefit rates;

¹ Of the \$7,265,876, the Health Center claimed costs totaling \$3,125,100 for the two HITI grants, \$646,161 for the CIP grant, \$2,194,615 for the IDS grant, and \$1,300,000 for the NAP grant.

- interviewed Health Center personnel to gain an understanding of the Health Center’s accounting system, internal controls over the claiming of costs for Federal reimbursement, and HITI, CIP, IDS, and NAP grant activities;
- reviewed the Health Center’s procedures on accounting for funds, documenting transactions, making estimates, preparing financial reports, withdrawing Federal funds, and processing payroll;
- reviewed the Health Center’s independent auditor’s reports and related financial statements for fiscal years 2009, 2010, and 2011;
- reviewed the Health Center’s supporting documentation (such as payroll records, vendors’ invoices, canceled checks, and contracts) to determine the allowability of costs claimed under the five grants; and
- discussed the results of our review with Health Center 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 objective.

FINDINGS AND RECOMMENDATIONS

Of the \$7,265,876 in costs reviewed, \$2,726,151 was allowable in accordance with the terms of the Recovery Act grants and applicable Federal requirements. However, the Health Center claimed \$113,759 in unallowable rental costs and related indirect costs and \$4,425,966 in inadequately documented salary and salary-related costs. The salary costs were inadequately documented because the Health Center did not maintain personnel activity reports reflecting an after-the-fact determination of the actual activity of each employee. The \$4,425,966 consisted of \$3,143,490 in salaries and wages, \$727,572 in fringe benefits, and \$554,904 in indirect costs related to the salaries and wages and fringe benefits.

The Health Center claimed unallowable rental costs because its officials were unaware of the Federal requirement limiting rental costs under a “less-than-arms-length” lease to the amount that would have been allowable had title to the property vested in the Health Center. In addition, Health Center officials acknowledged that they had claimed salaries and wages on the basis of budget estimates and that the Health Center’s policies and procedures did not comply with Federal requirements.

UNALLOWABLE COSTS CLAIMED FOR FEDERAL REIMBURSEMENT

Federal Requirements

Federal cost principles (2 CFR part 230, Appendix B, § 43.c.) state:

Rental costs under “less-than-arms-length” leases are allowable only up to the amount ... that would be allowed had title to the property vested in the non-profit organization. For this purpose, a less-than-arms-length lease is one under which one party to the lease agreement is able to control or substantially influence the actions of the other. Such leases include, but are not limited to those between ... a non-profit organization and a director, trustee, officer, or key employee of the non-profit organization or his immediate family, either directly or through corporations, trusts, or similar arrangements in which they hold a controlling interest. For example, a non-profit organization may establish a separate corporation for the sole purpose of owning property and leasing it back to the non-profit organization.

Federal cost principles (2 CFR part 230, Appendix B, § 43.b.) also state that the amount of allowable rental costs “... would include expenses such as depreciation or use allowance, maintenance, taxes, and insurance.”

Rental and Related Indirect Costs

The Health Center claimed for Federal reimbursement a total of \$113,759 in unallowable rental and related indirect costs:

- Contrary to Federal cost principles, the Health Center did not limit rental costs claimed under the NAP grant for a new service site to the amount that would have been allowable had title to the property vested in the Health Center. The Health Center claimed \$201,383 in rental costs paid to a limited liability partnership that it had established for the sole purpose of owning the property and leasing the property back to the Health Center (a “less-than-arms-length” lease). After reviewing the supporting documentation provided by the Health Center, we determined that the allowable rental costs should have been limited to the \$116,488 that would have been allowable had title to the property vested in the Health Center. As a result, the Health Center’s claim exceeded the allowable rental costs by \$84,895.
- The Health Center claimed \$28,864 in unallowable indirect costs related to the unallowable rental costs.

Health Center officials stated that they claimed unallowable costs because they were not aware of the Federal requirement limiting allowable rental costs under “less-than-arms-length” leases.

INADEQUATELY DOCUMENTED COSTS CLAIMED FOR FEDERAL REIMBURSEMENT

Federal Requirements

Federal cost principles (2 CFR part 230, Appendix A, § A.2.g.) state that to be allowable under an award, costs must be adequately documented.

Federal cost principles (2 CFR part 230, Appendix B, § 8.m.(1)) state: “Charges to awards for salaries and wages, whether treated as direct costs or indirect costs, will be based on documented payrolls approved by a responsible official(s) of the organization. The distribution of salaries and wages to awards must be supported by personnel activity reports” In addition, § 8.m.(2) states: “Reports reflecting the distribution of activity of each employee must be maintained for all staff members (professionals and nonprofessionals) whose compensation is charged, in whole or in part, directly to awards.”

Federal cost principles (2 CFR part 230, Appendix B, § 8.m.(2)(a)) specify that personnel activity reports “... must reflect an after-the-fact determination of the actual activity of each employee. Budget estimates (*i.e.*, estimates determined before the services are performed) do not qualify as support for charges to awards.”

Salary and Salary-Related Costs

The Health Center claimed for Federal reimbursement a total of \$4,425,966 in inadequately documented salary and salary-related costs:²

- Contrary to Federal cost principles, the Health Center did not adequately document \$3,143,490 in salaries and wages claimed under the IDS, HITI, and NAP grants. The Health Center charged salaries and wages based on documented payrolls approved by responsible officials of the Health Center. Our review of the Health Center’s payroll records confirmed that the Health Center incurred these costs. However, the Health Center did not maintain personnel activity reports reflecting the distribution of activity of each employee whose compensation was claimed under the grants. Instead, the Health Center supported its salaries and wages with budget estimates determined before services were performed. Budget estimates do not qualify as adequate supporting documentation for salaries and wages claimed under the grants.
- The Health Center claimed \$727,572 in fringe benefits and \$554,904 in indirect costs related to the inadequately documented salaries and wages.

Health Center officials acknowledged that they had claimed salaries and wages on the basis of budget estimates and that the Health Center’s policies and procedures did not comply with Federal requirements.

² Of the \$4,425,966, the Health Center claimed \$2,194,615 under the IDS grant, \$1,490,502 under the two HITI grants, and \$740,849 under the NAP grant.

RECOMMENDATIONS

We recommend that HRSA:

- require the Health Center to refund to the Federal Government \$113,759 for unallowable rental costs and related indirect costs,
- either require the Health Center to refund to the Federal Government \$4,425,966 for inadequately documented salary and salary-related costs or work with the Health Center to determine whether any of the costs claimed were allowable,
- educate Health Center officials on the Federal requirement limiting allowable rental costs under “less-than-arms-length” leases, and
- ensure that the Health Center maintains personnel activity reports in compliance with Federal requirements.

FAMILY HEALTH CENTERS OF SAN DIEGO, INC., COMMENTS

In written comments on our draft report, the Health Center described how it had used its grant funding and stated that it had met or exceeded the Recovery Act grant objectives on all five grants. The Health Center also provided information in response to our finding on rental and related indirect costs and disagreed with our finding on salary and salary-related costs. The Health Center stated that it looked forward to working with HRSA to resolve the findings.

- Regarding our first finding, the Health Center stated that it had previously believed it was acceptable to charge to the grant market-rate rent for the property, but it had become aware of requirements related to “less-than-arms-length” leases and had adjusted its lease policies. The Health Center also stated that it would welcome additional education or technical support from HRSA. The Health Center commented that it had incurred significant costs for establishing and operating Lemon Grove Family Health Center and asked for an opportunity to work with HRSA to allocate other costs that it had not allocated to the NAP award if HRSA determines that a portion of rental costs is unallowable.
- The Health Center stated that it “strongly refutes” our second finding. The Health Center stated that it had charged salary and salary-related costs to the grant on the basis of the employees’ initial Action Forms, which required approval by the employee, supervisor, director, and director of human resources. The Health Center stated that the monthly accounting department and quarterly leadership reviews of its salary allocations were appropriate after-the-fact determinations and that there was no need to review the allocations during each pay period because most employees were given one role with one purpose that did not change. The Health Center also stated that subsequent to the start of our fieldwork, it had implemented a new time-and-effort tracking system to ensure compliance with Federal requirements. The Health Center commented that it strongly maintained that its salary and salary-related costs were allowable and welcomed the

opportunity to explain to HRSA its tracking system and share with HRSA its documentation for salaries and wages.

The Health Center's comments are included in their entirety as Appendix A.

OFFICE OF INSPECTOR GENERAL RESPONSE

Regarding our first finding, we maintain that the Health Center claimed \$113,759 in unallowable rental costs and related indirect costs under the NAP grant. Any other costs that the Health Center could have allocated to the NAP grant were outside the scope of our review.

Regarding our second finding, we maintain that the Health Center claimed a total of \$4,425,966 in inadequately documented salary and salary-related costs. We acknowledged in our report that our review of the Health Center's payroll records confirmed that the Health Center incurred these costs and that the Health Center charged salaries and wages based on documented payrolls approved by responsible officials of the Health Center. However, the Health Center supported salaries and wages allocated to the IDS, HITI, and NAP grants with budget estimates determined before services were actually performed. The employees' initial Action Forms that the Health Center used to charge salaries and wages were generated before actual activity took place; therefore, these forms constituted budget estimates of salary costs. Federal cost principles make clear that budget estimates do not qualify as support for charges to awards.

Nothing in the Health Center's comments caused us to change our findings or recommendations.

HEALTH RESOURCES AND SERVICES ADMINISTRATION COMMENTS

In written comments on our draft report, HRSA concurred with our recommendations and provided information on actions that it planned to take to address our recommendations. HRSA's comments are included in their entirety as Appendix B.

APPENDIXES

APPENDIX A: FAMILY HEALTH CENTERS OF SAN DIEGO, INC., COMMENTS



FAMILY HEALTH CENTERS OF SAN DIEGO
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- Chase Avenue
Family Health Center
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El Cajon, CA 92020
- Chula Vista
Family Health Center
251 Landis Avenue
Chula Vista, CA 91910
- City Heights
Family Health Center
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- Diamond Neighborhoods
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- Grossmont Spring Valley
Family Health Center
8788 Jamacha Road
Spring Valley, CA 91977
- Healthy Development Services-
Central Region
2114 National Avenue
San Diego, CA 92113
- Healthy Development Services-
East Region
1234 Broadway
El Cajon, CA 92021
- Lemon Grove
Family Health Center
7592 Broadway
Lemon Grove, CA 91945
- Logan Heights
Family Counseling Center
2204 National Avenue
San Diego, CA 92113
- Logan Heights
Family Health Center
1809 National Avenue
San Diego, CA 92113
- North Park
Family Health Center
3544 30th Street
San Diego, CA 92104
- Sherman Heights
Family Health Center
2391 Island Avenue
San Diego, CA 92102
- Teen Health Center
1643 Logan Avenue
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September 10, 2012

Ms. Lori A. Ahlstrand
Regional Inspector General for Audit Services
DHHS/Office of Inspector General
Office of Audit Services, Region IX
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Report #A-09-10-01010

Dear Ms. Ahlstrand:

Family Health Centers of San Diego (FHCSD) has reviewed the Office of Inspector General (OIG) draft report entitled “Family Health Centers of San Diego, Inc., Claimed Unallowable Costs Against Recovery Act Grants.” In response, FHCSD would like to describe how we met, and in many cases exceeded, the goals and purposes of the ARRA funding and offer a detailed explanation for our disagreement with one of the findings.

FHCSD received and implemented five ARRA grants benefiting low income, uninsured and medically underserved persons. The details of the grants are as follows:

- As a result of \$1,300,000 in New Access Point (NAP) funding, leveraged with \$163,710 in local grant funding and almost three million dollars in FHCSD agency resources, FHCSD established the new Lemon Grove Family Health Center. During the project period of 7/1/09-4/30/11, the new health center served 2,785 patients through 5,803 patient visits. The health center continued its path of significant growth after the project period, serving 6,035 patients through 12,561 patient visits in 2011 alone, 45% of whom were uninsured and 83% lived at or below 100% of the Federal Poverty Level.

The funding supported an average of 4.77 new FTEs throughout the project period. And while only \$150,000 of the NAP funding was allocated for capital and equipment expenditures, FHCSD leveraged over \$2,450,000 million to purchase the property and \$783,659 to complete major renovations. The economic impact of the new health center for both construction and ongoing operations is substantial.

- As a result in \$2,193,615 in Increased Demand for Services (IDS) funding, FHCSD expanded access to care and increased services through:

Accredited by the Joint Commission



- Expanded after-hours medical care on Saturdays at 3 clinic locations;
- A new integrated mental healthcare program at Logan Heights Family Health Center;
- The hiring of a new OB/GYN;
- A new Care Coordinator Department led by a new Managed Care Coordinator to help patients access and orient to FHCS.
- The hiring of 2 new Certified Application Assistors to help patients enroll in public assistance programs.
- The hiring of a new HIV Outreach Worker to bring HIV + persons into care and increase prevention activities
- Strengthening our IT, HR, and Accounting infrastructure so they had the capacity to support the clinical sites' increased demand for their services.

These increased services gave FHCS the capacity to serve 107,185 new patients through 330,042 patient visits during the project period of 7/1/09-4/30/11.

The IDS funding supported an average of 13.70 new FTEs throughout the project period.

- As a result of \$2,500,000 in Construction in Progress (CIP) funding, leveraged with \$2,161,999 in additional grant & private funding and \$1,325,954 in FHCS agency resources, FHCS constructed the new City Heights Family Health Center. This beautiful new 48,000 square foot facility owned by FHCS replaced an old 5,000 square foot leased storefront facility. In its first three months of operation in the new building, the clinic care team saw 4,597 patients, roughly half of what the previous clinic could accommodate in an entire year.

The CIP funding supported 4.61 new construction FTEs during the project period.

- As a result of \$4,465,625 in Health Information Technology Implementation (HITI) funding, leveraged with millions of dollars in FHCS agency resources and staff time, FHCS:
 - Developed and deployed an EHR-Nursing system;
 - Developed and deployed an EHR-Dental system;
 - Developed and deployed a nationally certified EHR-Medical system; and
 - Established an effective HCCN with another similar sized health center in New Mexico and local university partners.

This significant achievement is transforming the provision of care at FHCS, allowing for new quality initiatives and enabling our July 2011 certification as a Joint Commission Primary Care Medical Home.

The HITI funding supported 8 new FTEs during the project period.

As these numbers demonstrate, FHCS met and/or exceeded our ARRA grant objectives on all five grants.

The OIG's draft report identifies two primary findings. The first states that FHCSO claimed \$113,759 in unallowable rental and related indirect costs. These costs were claimed as part of the NAP grant and represent the difference between "market rate rent" and the costs allowed under a "less-than-arms-length" lease. FHCSO previously believed it was acceptable to charge market rate rent for the property to the grant. Numerous past external audits failed to correct FHCSO's understanding on this requirement. Now that we are aware of the additional requirements related to "less-than-arms-length" leases, we have adjusted our related lease and policies. We believe we are currently in full compliance on this issue; however, we would welcome any additional education or technical support from HRSA.

During the NAP grant period, FHCSO incurred significant costs for the establishment and operation of Lemon Grove Family Health Center that were not allocated to the NAP award. Should HRSA determine that a portion of our rent claims are unallowable, we would like the opportunity to work with HRSA to allocate other unreimbursed costs to the grant.

The second finding states that FHCSO claimed \$4,425,966 for inadequately documented salary and salary-related costs. FHCSO strongly refutes this finding.

During the OIG audit, FHCSO provided the auditors documentation regarding our salary allocation process, cost center calculations, draw down activities, payroll records and after the fact determinations.

FHCSO charged these positions to the grant based on the employee's initial Action Form which requires employee, supervisor, director and the Director of Human Resources approval. The allocations were then reviewed monthly by the accounting department and the supervising director, and quarterly by senior leadership.

Many of the positions funded by FHCSO's ARRA grants were full time positions. In the limited instances that the funds supported part time positions, they were for set days, times, and or locations that did not vary over time. In FHCSO's opinion, the monthly accounting statement review and quarterly leadership reviews were appropriate after the fact determinations. There was no need to review the allocation during each pay period- as most employees were given one role with one purpose that did not change.

For example, the new OB/GYN's sole job was to provide OB/GYN clinical services. The new mental health therapist only provided integrated mental health at Logan Heights Family Health Center. The costs charged to the grant represent an accurate account of time spent on the reported activities.

However, in planning before the OIG audit, and subsequent to the OIG filed audit, FHCSO implemented a new time and effort tracking system. In order to ensure clear compliance with the federal standards, FHCSO supervisors now verify grant funding allocations at the end of each two week pay period for all employees, regardless whether job duties or hours have changed. While we believe this new electronic system ensures FHCSO is in compliance with the strictest OIG interpretation of the regulations, we strongly maintain that our ARRA salary and salary-related costs were allowable during the project period. We would welcome the opportunity to

explain our ARRA-related salary and wage tracking systems and share our documentation with HRSA.

FHCSO is a federally qualified health center with a longstanding track record of excellent accounting controls, grant tracking and grant billing systems. This is evidenced by the fact that our organization has not received a management letter as part of our independent external audit in over two decades. We take our responsibility to appropriately steward our federal grant funds very seriously. We look forward to working together with HRSA to resolve these audit findings.

Please let me know if you have questions or need additional information. I can be reached at (619) 515-2301 or via email at fran@fhcsd.org.

Sincerely,

/FRAN BUTLER-COHEN/

Fran Butler-Cohen
CEO

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



DEPARTMENT OF HEALTH & HUMAN SERVICES

Health Resources and Services
Administration

Rockville, MD 20857

DEC 18 2007

TO: Inspector General

FROM: Administrator

SUBJECT: OIG Draft Report: "Family Health Centers of San Diego, Inc., Claimed Unallowable and Inadequately Documented Costs for Health Resources and Services Administration Grants Under the Recovery Act" (A-09-11-01010)

Attached is the Health Resources and Services Administration's (HRSA) response to the OIG's draft report, "Family Health Centers of San Diego, Inc., Claimed Unallowable and Inadequately Documented Costs for Health Resources and Services Administration Grants Under the Recovery Act" (A-09-11-01010). If you have any questions, please contact Sandy Seaton in HRSA's Office of Federal Assistance Management at (301) 443-2432.

A handwritten signature in blue ink, appearing to read "Mary K. Wakefield".

Mary K. Wakefield, Ph.D., R.N.

Attachment

**Health Resources and Services Administration's Comments on the OIG Draft Report –
“Family Health Centers of San Diego, Inc., Claimed Unallowable and Inadequately
Documented Costs for Health Resources and Services Administration Grants Under the
Recovery Act” (A-09-11-01010)**

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 require the Health Center to refund to the Federal Government \$113,759 for unallowable rental costs and related indirect costs.

HRSA Response:

HRSA concurs with the OIG recommendation and will work with the Health Center to determine the amount of unallowable costs, including rental and related indirect costs charged against the HRSA grants and require that such amount be refunded to the federal government.

OIG Recommendation to HRSA:

We recommend that HRSA either require the Health Center to refund to the Federal Government \$4,425,966 for inadequately documented salary and salary-related costs or work with the Health Center to determine whether any of the costs claimed were allowable.

HRSA Response:

HRSA concurs with the OIG recommendation and will work with the Health Center to determine which salary and salary-related costs charged against the HRSA grants are allowable.

OIG Recommendation to HRSA:

We recommend that HRSA educate Health Center officials on the Federal requirement limiting allowable rental costs under “less-than-arms-length” leases.

HRSA Response:

HRSA concurs with the OIG recommendation and will educate the Health Center officials on the federal requirement regarding rental costs under “less-than-arms-length” leases.

OIG Recommendation to HRSA:

We recommend that HRSA ensure that the Health Center maintains personnel activity reports in compliance with Federal requirements.

HRSA Response:

HRSA concurs with the OIG recommendation and will ensure that the Health Center maintains personnel activity reports for each employee who works on federal awards in compliance with federal requirements.