

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**SOUNDVIEW HEALTH CARE NETWORK
DID NOT MEET SELECT FINANCIAL
PERFORMANCE MEASURES AND
CLAIMED UNALLOWABLE FEDERAL
GRANT EXPENDITURES**

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



Gloria L. Jarmon
Deputy Inspector General

September 2012
A-02-11-02004

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.

The Health Center Program provides grants to nonprofit private or public entities that serve designated medically underserved populations and areas, as well as vulnerable populations of migrant and seasonal farm workers, the homeless, and residents of public housing. These grants are commonly referred to as “section 330 grants.”

Under the American Recovery and Reinvestment Act of 2009, P.L. No. 111-5 (Recovery Act), enacted February 17, 2009, HRSA received \$2.5 billion, \$2 billion of which was to expand the Health Center Program by serving more patients, stimulating new jobs, and meeting the expected increase in demand for primary health care services among the Nation’s uninsured and underserved populations. HRSA awarded a number of grants using Recovery Act funding in support of the Health Center Program, including Increased Demand for Services (IDS) and Capital Improvement Program (CIP) grants.

Soundview Health Care Network (Soundview) is a nonprofit organization that operates a network of five health centers throughout The Bronx, New York. Soundview provides medical, dental, and mental health services and is funded primarily by patient service revenues and Federal grants.

During calendar years (CY) 2008 through 2010, HRSA awarded Soundview grant funding totaling approximately \$6.5 million. Of this amount, approximately \$5.2 million in section 330 grant funding was awarded to supplement Soundview’s health center operations. The remaining \$1.3 million was awarded in CY 2009 under the Recovery Act and included approximately \$1 million under a CIP grant to construct a new building and approximately \$300,000 under an IDS grant to increase access and reduce barriers to health care within Soundview’s service area.

In an era of increased focus on Federal expenditures and their results, it is critical that Federal agencies ensure that the organizations they fund are positioned to continue meeting program objectives and providing services. This is even more critical for agencies that fund programs intended to provide services to medically underserved and vulnerable populations. HRSA uses guidance detailed in its Bureau of Primary Health Care Policy Information Notice 2002-18 (PIN 2002-18), dated April 30, 2002, in part to evaluate the recovery of Community Health Centers operating under a financial recovery plan through the use of audited financial statements to ensure the centers’ financial stability and viability.

In addition to PIN 2002-18, which HRSA regularly uses during its internal reviews, HRSA published “Practice Management Benchmarks” (benchmark guidance), dated March 27, 2002, which provides additional financial performance measures to evaluate grantee performance.

Soundview must also comply with Federal cost principles in 2 CFR part 230, *Cost Principles for Non-Profit Organizations*, the requirements for health centers in 42 U.S.C. § 254(b), and the financial management system requirements in 45 CFR § 74.21.

OBJECTIVES

Our objectives were to determine (1) whether Soundview met select HRSA financial performance measures and (2) whether Soundview’s grant expenditures were allowable.

SUMMARY OF FINDINGS

Soundview did not meet select HRSA financial performance measures. In addition, Soundview claimed Federal grant expenditures totaling \$113,603 that were unallowable. Soundview claimed these unallowable costs because of deficiencies in its internal controls. We could not determine the allowability of an additional \$5,211,598 because Soundview did not maintain after-the-fact certifications of activity for employees whose salaries were charged to the section 330 and IDS grants and because section 330 grant funds were not accounted for separate from other operational funds.

RECOMMENDATIONS

We recommend that HRSA:

- impose special award conditions to address shortcomings in Soundview’s financial performance measures, including days of expenses covered by cash, current and cash ratios, working capital, accounts receivable collections, and revenue deficiency;
- ensure that Soundview refunds \$98,594 to the Federal Government (\$21,638 related to the IDS grant and \$76,956 related to the CIP grant);
- either require Soundview to refund \$5,211,598 to the Federal Government (\$5,055,333 related to the section 330 grant and \$156,265 related to the IDS grant) or work with Soundview to determine whether any of the costs that it claimed against these grants were allowable;
- impose special award conditions to ensure that Soundview’s financial system provides accurate, current, and complete disclosure of financial results, identifies the source and application of funds for HHS-sponsored activities, and accounts for section 330 grant funds separately from all other funds;
- ensure that Soundview develops policies and procedures for determining the reasonableness, allocability, and allowability of expenditures; and

- educate Soundview officials on Federal requirements for after-the-fact certifications and the proper period to charge costs.

SOUNDVIEW HEALTH CARE NETWORK COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE

In written comments on our draft report, Soundview stated that it disagreed with most of our findings and recommendations. Soundview also stated that delayed Medicaid payments and two unpaid grants impacted its financial performance measures and that it was not aware of requirements to maintain after-the-fact certifications and to separately account for Federal grant expenditures.

After reviewing Soundview's comments, we maintain that our findings and recommendations are valid. Soundview's comments appear as Appendix A.

HEALTH RESOURCES AND SERVICES ADMINISTRATION COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE

In written comments on our draft report, HRSA generally agreed with our findings and recommendations. HRSA agreed with our recommendation to ensure that Soundview refund \$98,594 and will work with the Program Support Center on appropriate debt collection actions. Regarding the finding and recommendation that \$5,211,598 either be refunded or that HRSA work with Soundview to determine what, if any, of these costs were allowable, HRSA concurred that we had applied the appropriate Federal cost principles and administrative requirements. HRSA did not commit to a course of action regarding these funds. It did state that it would issue clarifying guidance to section 330 grantees to affirm these Federal requirements and to notify the grantees that they must separately account for Federal and non-Federal grant budgets and expenditures. HRSA also stated that it did not plan to take action on our remaining recommendations because (1) Soundview's section 330 grant expired in January 2012, and a new organization was awarded a section 330 grant to serve Soundview's area/population and (2) other Soundview funding awards were placed on restricted drawdown, requiring approval by grants management officials prior to disbursement.

After reviewing HRSA's comments, we maintain that our findings and recommendations are valid. We continue to recommend that HRSA either require Soundview to refund the \$5,211,598 in section 330 and IDS grant funds or work with Soundview to determine whether any of the costs claimed against these grant were allowable. In addition, although Soundview's section 330 grant has expired and been fully drawn down, its IDS and CIP grants are still active. Therefore, HRSA should still address shortcomings in Soundview's financial performance measures and ensure that Soundview develops policies and procedures for determining the reasonableness, allocability, and allowability of expenditures until these grants have been closed.

HRSA's comments are included in their entirety as Appendix B (May 3, 2012) and Appendix C (August 9, 2012).

TABLE OF CONTENTS

	<u>Page</u>
INTRODUCTION	1
BACKGROUND	1
Health Center Program	1
American Recovery and Reinvestment Act of 2009.....	1
Soundview Health Care Network	1
Health Resources and Services Administration	
Financial Performance Measures	2
Federal Requirements for Grantees	2
Special Award Conditions	2
OBJECTIVES, SCOPE, AND METHODOLOGY	3
Objectives	3
Scope.....	3
Methodology	3
FINDINGS AND RECOMMENDATIONS	4
PERFORMANCE RELATIVE TO FINANCIAL PERFORMANCE MEASURES	4
Days of Expenses Covered by Cash	4
Current and Cash Ratios	5
Working Capital.....	5
Accounts Receivable Collections	5
Earnings Trends	6
UNALLOWABLE EXPENDITURES CLAIMED	
FOR FEDERAL REIMBURSEMENT	6
Federal Requirements	6
Expenditures for the Section 330 Grant.....	6
Expenditures for the Increased Demand for Services Grant	7
Expenditures for the Capital Improvement Program Grant	8
RECOMMENDATIONS	9
SOUNDVIEW HEALTH CARE NETWORK COMMENTS AND	
OFFICE OF INSPECTOR GENERAL RESPONSE	9
Performance Relative to Financial Performance Measures	10
Unallowable Expenditures Claimed for Federal Reimbursement	11
Expenditures for the Increased Demand for Services Grant.....	12
Expenditures for the Capital Improvement Program	12

HEALTH RESOURCES AND SERVICES ADMINISTRATION COMMENTS
AND OFFICE OF INSPECTOR GENERAL RESPONSE..... 13

APPENDIXES

A: SOUNDVIEW HEALTH CARE NETWORK COMMENTS

B: HEALTH RESOURCES AND SERVICES ADMINISTRATION COMMENTS
DATED MAY 3, 2012

C: HEALTH RESOURCES AND SERVICES ADMINISTRATION COMMENTS
DATED AUGUST 9, 2012

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). The Health Center Program provides comprehensive primary health care services to medically underserved populations through planning and operating grants to health centers. Within the U.S. Department of Health and Human Services (HHS), the Health Resources and Services Administration (HRSA) administers the program.

The Health Center Program provides grants to nonprofit private or public entities that serve designated medically underserved populations and areas, as well as vulnerable populations of migrant and seasonal farm workers, the homeless, and residents of public housing. These grants are commonly referred to as “section 330 grants.”

American Recovery and Reinvestment Act of 2009

Under the American Recovery and Reinvestment Act of 2009, P.L. No. 111-5 (Recovery Act), enacted February 17, 2009, HRSA received \$2.5 billion, \$2 billion of which was to expand the Health Center Program by serving more patients, stimulating new jobs, and meeting the expected increase in demand for primary health care services among the Nation’s uninsured and underserved populations. HRSA awarded a number of grants using Recovery Act funding in support of the Health Center Program, including Increased Demand for Services (IDS) and Capital Improvement Program (CIP) grants.

Soundview Health Care Network

Soundview Health Care Network (Soundview) is a nonprofit organization that operates a network of five health centers throughout The Bronx, New York.¹ Soundview provides medical, dental, and mental health services and is funded primarily by patient service revenues and Federal grants.

During calendar years (CY) 2008 through 2010, HRSA awarded Soundview grant funding totaling approximately \$6.5 million. Specifically:

- During CYs 2008 through 2010, HRSA awarded Soundview approximately \$1.7 million each year in section 330 grant funds, for a total of approximately \$5.2 million, to supplement Soundview’s health center operations.
- During CY 2009, HRSA awarded Soundview approximately \$1.3 million in Recovery Act funds. Approximately \$1 million of this amount was awarded under a CIP grant to

¹ Soundview’s corporate name is Comprehensive Community Development Corp., though it does business as Soundview Health Care Network.

construct a new building, and approximately \$300,000 was awarded under an IDS grant to increase the number of patients provided health care within Soundview's service area.²

Health Resources and Services Administration Financial Performance Measures

In an era of increased focus on Federal expenditures and their results, it is critical that Federal agencies ensure that the organizations they fund are positioned to continue meeting program objectives and providing services. This is even more critical for agencies that fund programs intended to provide services to medically underserved and vulnerable populations. HRSA uses guidance detailed in its Bureau of Primary Health Care Policy Information Notice 2002-18 (PIN 2002-18), dated April 30, 2002, in part to evaluate the recovery of Community Health Centers operating under a financial recovery plan through the use of audited financial statements to ensure the centers' financial stability and viability.

In addition to PIN 2002-18, which HRSA regularly uses during its internal reviews, HRSA published "Practice Management Benchmarks" (benchmark guidance), dated March 27, 2002, which provides additional financial performance measures to evaluate grantee performance.

Federal Requirements for Grantees

Title 45, part 74, of the Code of Federal Regulations establishes uniform administrative requirements governing HHS grants and agreements awarded to nonprofit organizations. As a nonprofit organization in receipt of Federal funds, Soundview must comply with Federal cost principles in 2 CFR part 230, *Cost Principles for Non-Profit Organizations* (formerly 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 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 reasonableness, allocability, and allowability of expenditures in accordance with applicable Federal cost principles and the terms and conditions of the award (45 CFR § 74.21(b)(6)).

Special Award Conditions

Pursuant to 45 CFR § 74.14, HRSA may impose additional requirements if a grant recipient has a history of poor performance, is not financially stable, does not have a financial management system that meets Federal standards, has not conformed to the terms and conditions of a previous award, or is not otherwise responsible. Effective May 2010, HRSA imposed special award

² The grant budget periods covered by our audit were February 1, 2008, through January 31, 2011 (includes three budget periods), for the section 330 grant funds; June 29, 2009, through June 28, 2011, for the CIP funds; and March 27, 2009, through March 26, 2011, for the IDS grant funds.

conditions on Soundview by requiring Soundview to obtain HRSA approval prior to withdrawing grant funds.³

OBJECTIVES, SCOPE, AND METHODOLOGY

Objectives

Our objectives were to determine (1) whether Soundview met select HRSA financial performance measures and (2) whether Soundview's grant expenditures were allowable.

Scope

We analyzed Soundview's financial performance during fiscal years 2008 through 2010. Our analyses included a review of select HRSA financial performance measures, including a review of Soundview's days of expenses covered by cash, current and cash ratios, working capital, accounts receivable collections, and earnings trends. We also reviewed costs totaling \$5,339,571 that Soundview charged to its section 330, CIP, and IDS grants for the period February 1, 2008, through December 30, 2010. Lastly, we reviewed Soundview's financial systems. Because we identified material misstatements in Soundview's audited financial statements, we did not fully rely on those statements.

We performed our fieldwork at Soundview's administrative office in The Bronx, New York, during January and February 2011.

Methodology

To accomplish our objective, we:

- reviewed relevant Federal laws, regulations, and guidance;
- reviewed Soundview's HRSA grant applications, notices of grant award, and supporting documentation;
- interviewed Soundview personnel to gain an understanding of Soundview's accounting system, internal controls over Federal expenditures, and IDS and CIP grant activities;
- reviewed Soundview's procedures on accounting for funds, documenting transactions, making estimates, preparing financial reports, withdrawing Federal funds, and payroll processing;
- reviewed Soundview's independent auditor's reports and related financial statements for fiscal years 2008, 2009, and 2010;

³ Specifically, HRSA placed Soundview on "restricted reimbursement drawdown status," which required Soundview to submit supporting documentation and obtain prior approval from HRSA for every drawdown request.

- examined selected accounts in Soundview’s audited financial statements to determine the reliability of the balances and made adjustments as necessary;
- analyzed Soundview’s adjusted financial line items and amounts; and
- reviewed expenditures claimed on Soundview’s section 330, IDS, and CIP grants for reasonableness, allowability, and allocability.

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

Soundview did not meet select HRSA financial performance measures. In addition, Soundview claimed Federal grant expenditures totaling \$113,603 that were unallowable.⁴ Soundview claimed these unallowable costs because of deficiencies in its internal controls. We could not determine the allowability of an additional \$5,211,598⁵ because Soundview did not maintain after-the-fact certifications of activity for employees whose salaries were charged to the section 330 and IDS grants and because section 330 grant funds were not accounted for separate from other operational funds.

PERFORMANCE RELATIVE TO FINANCIAL PERFORMANCE MEASURES

To assess Soundview’s performance relative to HRSA’s financial performance measures, we analyzed Soundview’s (1) days of expenses covered by cash, (2) current and cash ratios, (3) working capital, (4) accounts receivable collections, and (5) earnings trends.

Days of Expenses Covered by Cash

Measuring days of expenses covered by cash determines whether an organization has enough cash on hand to cover its operating expenses. This measure is calculated by dividing the yearend cash balance by the average daily expenses. According to HRSA’s benchmark guidance, recipients should have 60 to 70 days of operating cash on hand. For the 3 years that we analyzed, Soundview’s cash balances were significantly lower than the recommended 60-day

⁴ This amount consists of \$21,638 in printing and publications, postage, and transportation costs that Soundview claimed against the IDS grant and \$91,965 in construction costs that it charged against its CIP grant. As explained in the discussion of the unallowable construction costs that follows, only \$76,956 of the \$91,965 remains due the Federal Government.

⁵ This amount consists of \$5,055,333 that Soundview charged against its section 330 grant and \$156,265 that it charged against its IDS grant.

minimum.⁶ During 2008, 2009, and 2010, Soundview's cash balances covered 2 days, 1 day, and less than 1 day, respectively.

Current and Cash Ratios

The current ratio measures an organization's ability to pay its short-term liabilities (e.g., debt) with its short-term assets (e.g., cash, inventory, receivables). The higher the current ratio, the more likely the organization is able to pay its obligations. A ratio of less than 1 suggests that the organization may be unable to pay off its obligations. The current ratio is calculated by dividing the organization's current assets by its current liabilities. Pursuant to PIN 2002-18, HRSA recommends that grantees maintain a current ratio greater than 1.5. Soundview's current ratio declined from 1.3 in 2008 to 1.2 in 2009 and 0.9 in 2010.

In addition, even if an organization's current ratio is greater than 1.5, it may not be able to pay off its current obligations if the majority of its current assets consists of accounts receivable, especially if the accounts receivable are not collected in a timely manner. The cash ratio is related to the current ratio and is commonly used to measure an organization's liquidity. It can therefore determine whether, and how quickly, the organization can repay its short-term debt. The cash ratio is calculated by dividing an organization's cash balance by its current liabilities. For 2008, 2009, and 2010, Soundview had declining cash ratios of 0.023, 0.013, and 0.009, respectively, indicating that Soundview did not have enough cash on hand to pay its short-term liabilities.

Working Capital

Working capital is a common measure of an organization's liquidity, efficiency, and overall health. Working capital is calculated by subtracting current liabilities from current assets. Pursuant to PIN 2002-18, HRSA recommends that grantees maintain a positive working capital greater than 2 months of expenditures.

Soundview did not maintain a working capital greater than 2 months of expenditures. At the end of 2008, Soundview's working capital was \$1.1 million, with an average of \$2.4 million of expenditures over 2 months. At the end of 2009, its working capital was \$783,000, with an average of \$2.4 million of expenditures over 2 months. At the end of 2010, its working capital fell to about negative \$276,000, with an average of \$2.1 million of expenditures over 2 months.

Accounts Receivable Collections

The average accounts receivable collection period is the amount of time it takes an organization to collect its accounts receivable balances. It is calculated by dividing an organization's yearend accounts receivable balance by its yearend revenue balance, multiplied by the number of days in the year. According to HRSA's benchmark guidance, recipients should collect their accounts

⁶ Given that Federal regulations require that grantees minimize the amount of time between the drawdown of Federal funds and the disbursement of those funds (45 CFR § 74.22), this particular performance measure should be applied in situations where a grantee has large amounts of operational funds that are non-Federal grant funds.

receivable balances in 65 days or less to maintain a healthy cashflow. During 2008, 2009, and 2010, Soundview collected its accounts receivable in an average of 126 days, 111 days, and 99 days, respectively.

Earnings Trends

An earnings trend is a measure of economic performance and is determined by comparing revenues to expenses (net earnings) over time. Pursuant to PIN 2002-18, HRSA recommends that grantees maintain a positive earnings trend. A failure to break even indicates that an organization may not be able to perform its core functions. Soundview's annual net earnings declined by \$653,580 from 2008 through 2010. For 2008 and 2009, Soundview had net profits of \$382,810 and \$6,851, respectively. For 2010, Soundview recorded a net loss of \$270,770.

UNALLOWABLE EXPENDITURES CLAIMED FOR FEDERAL REIMBURSEMENT

Federal Requirements

Pursuant to 2 CFR part 230, Appendix A, § A.2.g, costs must be adequately documented to be allowable under an award. Pursuant to 2 CFR part 230, Appendix B, §§ 8.b(2) and 8.m, for salaries and wages to be allowable for Federal reimbursement, grantees must maintain personnel activity reports reflecting the actual activity of each employee working on Federal awards. These after-the-fact determinations of employee activity must be signed by the employee or a supervisory official having firsthand knowledge of the employee's activities, be prepared at least monthly, coincide with one or more pay periods, and account for the total activity of the employee.

Pursuant to the Notice of Grant Award for its CIP grant, Soundview could incur preaward costs from February 17, 2009, until June 29, 2009, the effective date of the CIP award, with prior approval from the HRSA Grants Management Officer.

Pursuant to 45 CFR § 74.28, a recipient may charge to the grant only allowable costs resulting from obligations incurred during the funding period and any preaward costs authorized by the Federal awarding agency pursuant to 45 CFR § 74.25(d)(1).

Expenditures for the Section 330 Grant

We could not determine the allowability of \$5,055,333 in section 330 grant expenditures that Soundview claimed from February 2008 through December 2010 because it did not adequately document expenses. Specifically, Soundview did not maintain after-the-fact certifications of actual activity for employees who worked on the grant. In addition, Soundview did not account for its section 330 grant expenditures separate from other operational funds.⁷ As a result, we

⁷ Soundview separately tracked and accounted for its Recovery Act funds, as required. However, it failed to account for section 330 grant funds separate from other operational funds, including expenditures related to Medicaid, Medicare, and third-party reimbursements.

could not verify that section 330 grant funds were used for allowable expenditures. These unallowable claims occurred because Soundview did not:

- have written procedures for determining the reasonableness, allowability, and allocability of expenditures in accordance with the provisions of the applicable Federal cost principles and the terms and conditions of the award (45 CFR § 74.21(b)(6)) or
- set up its accounting system according to 45 CFR § 74.21(b)(1) and (2), which requires systems to provide accurate, current, and complete disclosure of financial results and records that identify the source and application of funds for HHS-sponsored activities and account for section 330 grants separately (42 CFR § 51c.112(a)).

Soundview officials stated that they were unaware of the Federal accounting system requirement and the requirement that section 330 grant expenditures needed to be documented. Furthermore, they stated that they were unaware that Soundview was required to maintain after-the-fact certifications of actual activity for employees who worked on Federal awards.

Expenditures for the Increased Demand for Services Grant

Soundview claimed unallowable IDS grant expenditures totaling \$21,638 for printing and publications, postage, and transportation that were not adequately documented or allocable to the award. In addition, we could not determine the allowability of \$156,265 in salary and fringe benefit costs that Soundview charged to the IDS grant because it failed to adequately document the expenditures.

Printing and Publications, Postage, and Transportation Costs

Contrary to 2 CFR part 230, Appendix A, § A.2.g., Soundview did not adequately document the \$21,638 charged to the IDS grant for printing and publications, postage, and transportation. Specifically, Soundview did not maintain supporting documentation for these charges or adequately document its methodology for allocating these organization-wide expenditures to the grant. Therefore, the \$21,638 claimed was not allowable for Federal reimbursement.

These unallowable claims occurred because Soundview did not have written procedures for determining the reasonableness, allocability, and allowability of expenditures in accordance with the provisions of the applicable Federal cost principles and the terms and conditions of the award (45 CFR § 74.21(b)(6)) and did not have a cost allocation methodology in accordance with 2 CFR part 230, Appendix A, §§ A.4 and D.4.⁸

⁸ Pursuant to 2 CFR part 230, Appendix A, § A.4, a cost is allocable to a Federal award if it is either incurred specifically for the award, benefits both the Federal award and other work and can be distributed in reasonable proportion to the benefits received, or is necessary to the overall operation of the organization (if a direct relationship to the Federal award cannot be shown). Lastly, pursuant to 2 CFR part 230, Appendix A, § D.4, joint costs must be prorated using a base that accurately measures the benefits provided to each award. The base must be established in accordance with reasonable criteria and be supported by current data.

According to Soundview officials, rather than track and maintain supporting documentation for these individual IDS grant expenses, Soundview allocated a portion of the organization-wide expenses to the grant. Soundview could not demonstrate that its allocation methodology and allocation base were consistent with Federal requirements. In addition, Soundview could not show that the costs were incurred specifically for the award, benefited both the Federal award and other work, or were necessary to the overall operation of the organization.

Salary and Fringe Benefit Costs

Contrary to 2 CFR part 230, Appendix B, §§ 8.b(2) and 8.m, Soundview did not adequately document \$156,265 in salary and fringe benefit costs that it charged to the IDS grant. Specifically, Soundview did not maintain after-the-fact certifications of actual activity for employees who worked on the grant. Therefore, we could not determine whether the \$156,265 that Soundview claimed was allowable for Federal reimbursement.

This occurred because Soundview did not have written procedures for determining the reasonableness, allowability, and allocability of expenditures in accordance with the provisions of the applicable Federal cost principles and the terms and conditions of the award (45 CFR § 74.21(b)(6)). Soundview officials stated that they were unaware of the requirement to maintain after-the-fact certifications of actual activity for employees who worked on Federal awards.

Expenditures for the Capital Improvement Program Grant

Soundview claimed unallowable CIP grant expenditures totaling \$91,965. Specifically, Soundview claimed \$85,633 for costs incurred prior to the start of the grant period without HRSA approval and \$6,332 for other costs that it could not support with documentation.

During the period January through February 2010, Soundview drew down \$102,460 from the payment system for expenditures to construct a new building for its main health center. In addition to Federal funding, Soundview anticipated receiving approximately \$3 million in New York State grant funds for the project and expected to complete the project on or before June 28, 2011, the end date of the CIP grant. Soundview canceled the project because the State funding was not received.

In April 2010, HRSA requested that Soundview send supporting documentation for the \$102,460 in drawdowns. HRSA subsequently determined that most of the drawdowns were used to pay for expenditures incurred prior to the grant period, and Soundview agreed to repay the entire \$102,460 in drawdowns by June 28, 2011. As of the date of our report, Soundview had repaid \$15,009 to the Federal Government.

We determined that Soundview spent \$10,495 of the drawdowns for architectural and consulting services that were allowable, related to the project, and incurred during the grant period. However, contrary to 45 CFR § 74.28, Soundview spent \$85,633 for architectural and consulting services and attorney fees incurred prior to the start of the grant period without receiving prior approval from HRSA as required by 45 CFR § 74.25(d)(1) and the terms and conditions of the CIP award. Contrary to 2 CFR part 230, Appendix A, § A.2.g, Soundview could not provide

invoices or supporting documentation for the remaining \$6,332. Therefore, \$91,965 was not allowable for Federal reimbursement. (Soundview has repaid \$15,009 of this amount; therefore, \$76,956 remains due the Federal Government.)

These unallowable claims occurred because Soundview did not have written procedures for determining the reasonableness, allocability, and allowability of expenditures in accordance with the provisions of the applicable Federal cost principles and the terms and conditions of the award (45 CFR § 74.21(b)(6)). Furthermore, Soundview officials stated that they were unaware that costs incurred prior to the start of the grant period were unallowable for Federal reimbursement.

RECOMMENDATIONS

We recommend that HRSA:

- impose special award conditions to address shortcomings in Soundview's financial performance measures, including days of expenses covered by cash, current and cash ratios, working capital, accounts receivable collections, and revenue deficiency;
- ensure that Soundview refunds \$98,594 to the Federal Government (\$21,638 related to the IDS grant and \$76,956 related to the CIP grant);
- either require Soundview to refund \$5,211,598 to the Federal Government (\$5,055,333 related to the section 330 grant and \$156,265 related to the IDS grant) or work with Soundview to determine whether any of the costs that it claimed against these grants were allowable;
- impose special award conditions to ensure that Soundview's financial system provides accurate, current, and complete disclosure of financial results, identifies the source and application of funds for HHS-sponsored activities, and accounts for section 330 grant funds separately from all other funds;
- ensure that Soundview develops policies and procedures for determining the reasonableness, allocability, and allowability of expenditures; and
- educate Soundview officials on Federal requirements for after-the-fact certifications and the proper period to charge costs.

SOUNDVIEW HEALTH CARE NETWORK COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE

In written comments on our draft report, Soundview stated that it disagreed with most of our findings and recommendations. After reviewing Soundview's comments, we maintain that our findings and recommendations are valid. Soundview's comments appear as Appendix A.

Performance Relative to Financial Performance Measures

Soundview Comments

Soundview stated that funds due from the New York State Medicaid program (Medicaid) had a significant impact on its financial performance measures. Specifically, Soundview stated that Medicaid owed it more than \$744,000 for the period 2007 through 2010 and that it did not start receiving these funds until May 2011.⁹ Soundview stated that these unpaid amounts negatively impacted its performance relative to HRSA's benchmarks for days of expenses covered by cash, current and cash ratios, and accounts receivable collections. Soundview also noted other contributing factors related to its accounts receivable system, including staff resources and shortages and limitations with its billing system. Moreover, Soundview contended that its performance relative to HRSA's benchmarks for days of expenses covered by cash and current and cash ratio performance measures was misleading because the measures take into account only a yearend cash balance.

Soundview also stated that, during our audit period, it "incurred urgently needed capital repair expenses" that were to be covered by two grants—a HRSA CIP grant and a New York State grant—that were awarded but never paid.¹⁰ Soundview indicated that these grants impacted its performance relative to HRSA's benchmark for working capital.

Finally, regarding its performance relative to HRSA's benchmark for earnings trends, Soundview stated that it is not unusual for an organization to experience a deficit year, as Soundview experienced in 2010. Soundview also stated that the two grants described above, which "could potentially be in the millions," were not recorded as income.

Office of Inspector General Response

Soundview did not dispute the results of our financial performance measure calculations. Rather, Soundview provided explanations for why it did not meet HRSA's benchmarks; mainly, that delayed Medicaid payments and two unpaid grants impacted its financial performance measures.

Regarding Soundview's comments concerning delayed Medicaid payments, we note that, even if these payments were made on time, it is doubtful that they would have materially changed the results of our financial performance measure calculations because any funds that Soundview received would presumably have been applied to Soundview's significantly large accounts payable balance. Further, the Medicaid payments would not have had a material impact on Soundview's current ratio, as this measure takes into consideration both cash and accounts receivables balances.

Regarding Soundview's comments concerning grant awards that it contends were never paid, we note that Soundview did receive a HRSA CIP grant award; however, it is currently repaying

⁹ Soundview stated that Medicaid still owes it more than \$200,000 for 2010.

¹⁰ Soundview stated that it has not been notified of the status of these two grants despite numerous inquiries.

those funds to HRSA because it claimed unallowable expenditures. We confirmed that Soundview was awarded a State grant for approximately \$3 million to purchase land and construct a new building. However, even if the State had paid Soundview the grant funds, it would not have improved Soundview's financial performance measures because the funds were to be related to building costs, not operating expenses.

Unallowable Expenditures Claimed for Federal Reimbursement

Soundview Comments

Soundview stated that our audit was the first time it was advised that after-the-fact certifications were required for employees working on Federal grants and that section 330 grant expenditures needed to be segregated from other operational funds. Specifically, Soundview stated that its independent auditors, HRSA officials, and other auditing agencies never mentioned these requirements. Soundview further stated that HRSA has never provided technical assistance on after-the-fact certifications and that a HRSA fiscal consultant who reviewed Soundview's financial records during a site visit never mentioned the requirement. Finally, Soundview questioned whether it was being held to the same standard as other health centers, several of which, according to Soundview, stated that they were not aware of after-the-fact certification requirements.

Office of Inspector General Response

Soundview did not dispute the criteria cited in our report or our findings concerning its failure to maintain after-the-fact certifications and to separately account for section 330 grant expenditures. Regardless of whether HRSA failed to provide guidance on these requirements, the terms and conditions of Soundview's section 330 grant award stipulate that grantees are required to be in compliance with:

- the applicable cost principles, which include the requirements for after-the-fact determinations of employee activity (2 CFR part 230, Appendix B, §§ 8.b(2) and 8.m) and
- the administrative requirements, which include the requirements for grantees to provide accurate, current, and complete disclosure of financial results and records that identify the source and application of funds for HHS-sponsored activities (i.e. expenditures for section 330 grant funds should be segregated and accounted for separately from other operational funds) (45 CFR § 74.21(b)(1) and (2); 42 CFR § 51c.112(a)).

We maintain that our finding on salary expenditures claimed against the section 330 grant is valid. We have found this issue at a number of other HRSA grantees and are applying the same standards for all of our audits of HRSA grantees.

Expenditures for the Increased Demand for Services Grant

Soundview Comments

Soundview restated its assertion that it was never made aware of the requirements to have after-the-fact certifications for employees working on Federal grants. Soundview also contended that the allocation of \$21,638 for printing and publications, postage, and transportation was allocated to the IDS grant in accordance with 2 CFR part 230 and that HRSA was aware of this allocation methodology.

Office of Inspector General Response

Soundview did not dispute the criteria cited in our report or our findings concerning after-the-fact certifications for employees working on the IDS grant. Regarding its statement that costs for printing and publications, postage, and transportation were allocated to the IDS grant in accordance with 2 CFR part 230, Soundview provided no documentation in its response to demonstrate that its allocation methodology and allocation base were consistent with Federal requirements. Further, Soundview did not provide documentation in its response to show that the costs were incurred specifically for the award, benefited both the Federal award and other work, or were necessary to the overall operation of the organization. Therefore, we maintain that our findings related to the IDS grant are valid.

Expenditures for the Capital Improvement Program Grant

Soundview Comments

Soundview stated that it has entered into a repayment plan with HRSA for the funds questioned in our audit report and that this amount should not be part of our findings because it has already been addressed. Soundview also contended that it has not received any notification from HRSA on the status of remaining CIP funds that it was awarded but not yet paid. Soundview stated that its communications with HRSA regarding these funds were not addressed in our report and that it objected to “the impartial representation of the findings related to this CIP grant.”

Office of Inspector General Response

Soundview did not dispute the criteria that we cited in our report or our findings concerning CIP grant expenditures. Although Soundview has entered into a repayment plan with HRSA for the total CIP grant funds it drew down (\$102,460), we found that Soundview did not improperly claim the full amount that it agreed to repay. Specifically, we found that Soundview improperly claimed \$91,965 of the \$102,460 it agreed to repay HRSA. Soundview has repaid \$15,009 of the \$91,965 amount; therefore, \$76,956 remains due the Federal Government. We recommended that HRSA recover only \$76,956—the balance owed to the Federal Government for the unallowable portion claimed, not the balance of the \$102,460 that Soundview agreed to repay. Therefore, we maintain that our finding that Soundview claimed unallowable CIP grant expenditures is valid.

We disagree with Soundview's statement that our report should have addressed a lack of communication with HRSA about the status of the remaining CIP funds. Our report did not discuss the remaining CIP funds because we did not audit these funds and because the funds were not expended or claimed by Soundview.

HEALTH RESOURCES AND SERVICES ADMINISTRATION COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE

In written comments on our draft report, HRSA generally agreed with our findings and recommendations.¹¹ HRSA agreed with our recommendation to ensure that Soundview refund \$98,594 and will work with the Program Support Center on appropriate debt collection actions. Regarding the finding and recommendation that \$5,211,598 either be refunded or that HRSA work with Soundview to determine what, if any, of these costs were allowable, HRSA concurred that we had applied the appropriate Federal cost principles and administrative requirements. HRSA did not commit to a course of action regarding these funds. It did state that it would issue clarifying guidance to section 330 grantees to affirm these Federal requirements and to notify the grantees that they must separately account for Federal and non-Federal grant budgets and expenditures. HRSA also stated that it did not plan to take action on our remaining recommendations because (1) Soundview's section 330 grant expired in January 2012, and a new organization was awarded a section 330 grant to serve Soundview's area/population and (2) other Soundview funding awards were placed on restricted drawdown, requiring approval by grants management officials prior to disbursement.

After reviewing HRSA's comments, we maintain that our findings and recommendations are valid. We continue to recommend that HRSA either require Soundview to refund the \$5,211,598 in section 330 and IDS grant funds or work with Soundview to determine whether any of the costs claimed against these grant were allowable. In addition, although Soundview's section 330 grant has expired and been fully drawn down, its IDS and CIP grants are still active. Therefore, HRSA should still address shortcomings in Soundview's financial performance measures and ensure that Soundview develops policies and procedures for determining the reasonableness, allocability, and allowability of expenditures until these grants have been closed.

HRSA's comments are included in their entirety as Appendix B (May 3, 2012) and Appendix C (August 9, 2012).

¹¹ Subsequent to our receipt of HRSA's initial comments dated May 3, 2012, we revised our recommendations to provide HRSA flexibility in addressing the allowability of costs claimed for salaries and fringe benefits for Soundview's section 330 and IDS grants. At HRSA's request, on June 4, 2012, we provided the agency with a revised draft report that included our revised recommendations, as well as Soundview's comments and OIG's response. HRSA submitted additional comments on August 9, 2012.

APPENDIXES

APPENDIX A: SOUNDVIEW HEALTH CARE NETWORK COMMENTS



Soundview HealthCare Network

Comprehensive Community Development Corporation

731 White Plains Road · Bronx, New York 10473 · (718) 589-2232 · Fax (718) 378-2880

May 2, 2012

Department of Health & Human Services
Office of Inspector General
Office of Audit Services
Region II
Jacob Javits Federal Building
26 Federal Plaza – Room 3900
New York, NY 10278

Re: Your Report Number A-02-11-02004

Dear Sirs,

We have reviewed your draft report referenced above and make the following comments and observations:

We will mention at the onset, we disagree totally with most if not all of your statements and your recommendations as cited in your report. Specifically when it is stated; "Soundview claimed Federal grant expenditures totaling \$5,310,192 that were unallowable" and that "Soundview claimed these unallowable costs because of deficiencies in its internal controls".

Soundview is located in what was an underserved and economically depressed community and thanks in part to the Federal grant Soundview received, those funds helped Soundview provide for the demand and necessary healthcare needs of the community it serves and for many patients that would otherwise not been able to afford the quality health care Soundview provides. The majority of the patients Soundview serve come from the community it is located in. Because Soundview continues to fill the healthcare need of the community and has done so for more than 30 years, it has addressed the health disparities evidenced in the system of care and services for this severely challenged and underserved community. However, the community and many of the Soundview patients still suffer from depressed economic conditions and still require the help of the Federal grant to help Soundview provide good quality health care. The purpose of the grant was to assist Soundview in providing health care for the indigent. The fact that Soundview is an important part of the Bronx health care system has also been noted in correspondence by New York State Office of Medicaid Inspector General [REDACTED]. It has also been communicated to us in various site visits by HRSA officials and HRSA affiliated officials.

Page 1 of 6

Office of Inspector General note: The deleted text has been redacted because it contains personally identifiable and/or other sensitive information.



Soundview HealthCare Network

Comprehensive Community Development Corporation

731 White Plains Road · Bronx, New York 10473 · (718) 589-2232 · Fax (718) 378-2880

SOUNDVIEW'S RESPONSE TO OIG'S FINDINGS:

Days of Expense Covered by Cash – HRSA's benchmark is 60 to 70 days of operating cash on hand. OIG's finding - 2 days in 2008, 1 day in 2009 and less than one day in 2010. In the 33+ years of operations, Soundview's audited financials have never demonstrated a deficit. The major reason our scoring in this category is below the benchmark revolved around the timeliness of Medicaid payments. In fact Medicaid owed Soundview for 2007 through 2009 \$468,539 and from 2010 approximately \$275,507 which Soundview did not start receiving until May 2011. As of the date of this letter Soundview is still due over \$200,000 for 2010. These extraordinary overdue amounts of funds play a significant role in establishing the financial performance measure; and taking the cash balance of one day out of 365 can be misleading.

Current and Cash Ratios: - HRSA recommends a current ration greater than 1.5. OIG's finding – 1.3 in 2008, 1.2 in 2009 and .9 in 2010. "A current ratio of 1 suggests an organization is unable to pay off its obligations". Although Soundview doesn't meet the HRSA recommendations, according to the definition of current ratio, Soundview is able to pay off its obligations in 2 of the 3 years measured. It's foreseeable that when accounts receivable are delayed as in the case of Medicaid owing Soundview upwards of \$744,000 and not paying most of that amount until 2011 that would have a negative impact on the current as well as the cash ration measure. Again this measure is taken for one day out of 365 which can be misleading.

Working Capital: - HRSA recommends a positive working capital greater than 2 months of expenditures. OIG's finding - For 2008 Soundview had approximately one month of working capital, for 2009 approximately 75% of one month's expense and for 2010 it fell to less than one month expenses by \$276,000. Soundview incurred urgently needed capital repair expenses over the years that affected this measure. Funds that Soundview should have received and were covered by a Federal HRSA CIP grant, as well as New York State Heal 6 funds were awarded to Soundview but were never paid. To date Soundview has not officially been notified of the status of these two awarded grants despite numerous inquiries.

Accounts Receivable Collections: - According to HRSA's benchmark guidance, recipients should collect their accounts receivable balance in 65 days or less to maintain a healthy cash flow. OIG's finding - 2008 average days to collect was 126, for 2009 it was 111 days, and for 2010 is was 99 days. Soundview's trend



Soundview HealthCare Network

Comprehensive Community Development Corporation

731 White Plains Road · Bronx, New York 10473 · (718) 589-2232 · Fax (718) 378-2880

reflect progressive improvement from year to year and we reiterate that the Medicaid funds still owed to Soundview for the periods 2007 to 2010 totaling an estimated \$744,000 significantly impact our financial situation. Soundview has no control of this government agency and are at the mercy of their decisions. Had payments been paid to Soundview when due Soundview would have fared better than what it did according to OIG. Other contributing factors revolve around staff resources and shortages and limitations with our billing system.

Earnings Trends - "HRSA recommends that grantees maintain a positive earnings trend. A failure to break even indicates that an organization may not be able to perform its core functions". OIG's findings – "Soundview's annual net earnings declined by \$653,580 from 2008 through 2010. For 2008 and 2009 Soundview had net profits of \$382,810 and \$6,851 respectively. For 2010 Soundview recorded a net loss of \$270,770." Soundview's net profits as a result of independent audits performed on Soundview financial records resulted in a \$458,835 net profit in 2008, \$506,851 in 2009 and \$41,831 in 2010. These amounts were subsequently changed by the OIG audit resulting in a combined net profit for the 3 year in question of \$118,891. It isn't unusual for organization to experience a deficit year. In Soundview's history and according to the OIG audit results this would be the one and only year in its 33 year history where a deficit was recorded. According to the OIG audit Net Assets/Retained earnings would be \$1,467,965. It should also be noted that Soundview was awarded CIP and Heal 6 grants throughout this period of time that was never recorded as income by Soundview and to date has never been paid or responded to after numerous inquiries by Soundview to both HRSA and NYS. These amounts could potentially be in the millions.

Unallowable Expenditures Claimed for Federal Reimbursement:

HRSA/Federal Requirements – For salary and wages to be allowed for Federal reimbursement, grantees must maintain an after the fact certification of the actual activity for each employee working on Federal awards. The certification must be signed by the employee or a supervisory official having firsthand knowledge of the employee's activity, be prepared at least monthly, coincide with one or more pay periods, and account for the total activity of the employee: - OIG findings – Soundview did not adequately document expense. Specifically Soundview did not maintain after-the-fact certifications of actual activity for employees who worked on the grant. In addition Soundview did not establish a separate account for its section 330 grant expenditures and commingled these funds with other operational funds. We could not verify that section 330 grant funds were used for allowable expenditures.



Soundview HealthCare Network

Comprehensive Community Development Corporation

731 White Plains Road · Bronx, New York 10473 · (718) 589-2232 · Fax (718) 378-2880

This is the first time ever that Soundview has been advised of this requirement in its 33+ years of operation. It has never been mentioned in any previous audit performed by the independent auditors, HRSA's officials and auditing agencies. We have routinely over the past 33+ years submitted our grant applications, our audited financial statements and have never been advised of said requirements. In addition, it should be noted that HRSA did not require line item reporting of Section 330 funds until April 2010, as noted in the NGA issued at that time. The findings here suggest otherwise with the request for repayment of grant monies back to 2008 due to unverifiable allowable expenditures.

There are norms and there are practices; is it a standard practice for all section 330 grantees to perform after-the-fact certifications? If there is, this was never addressed in any of our HRSA site visits, including one which a HRSA financial consultant [REDACTED] performed during her financial site visit assessment. She was charged specifically with reviewing our financial records. Nor was it ever addressed by [REDACTED] or [REDACTED], the HRSA Project Officer and Grants Management Specialist who are charged with providing us with Section 330 project support and technical assistance. We have been a section 330 grantee for over 33 year and this never came up.

Is this practice adhered to by all FQHC's and are the same standards being applied to the 1100+ Section 330 grantees? We have asked several FQHC's and they have never heard of any after-the-fact certifications of employees. Said requirement should be uniformly and unilaterally applied to all FQHC's; yet we do not find that other health centers have heard of or have been cited for similar findings. The purpose of the section 330 funds was to support indigent care. From 2008 to 2010 Soundview accumulated bad debt expense in excess of \$3,500,000. The economics of the population Soundview serve reflects a large indigent patient base. The entire section 330 funds were used to assist Soundview in serving this population. In fact, the Section 330 funds represent only a small portion of total Soundview funds needed to provide care to this largely underserved community. If this is not understood by any audit it would have to be said the audit was incomplete. If the demographics of the population we serve and the financial statistics of community health centers, specifically in large urban areas, are not clearly understood or taken into consideration it is understandable how one can mistakenly conclude section 330 funds were not used to provide indigent care.

Expenditures for the Increased Demand (IDS) for Services Grant - OIG's finding state Soundview failed to document \$156,265 in salary and fringe benefit cost charged to this grant. Specifically, Soundview did not maintain after-the-fact



Soundview HealthCare Network

Comprehensive Community Development Corporation

731 White Plains Road · Bronx, New York 10473 · (718) 589-2232 · Fax (718) 378-2880

certifications of actual activity for employees who worked on the grant. In addition Soundview failed to adequately document or adequately allocate \$21,638 for printing and publications, postage, and transportation charged to the grant. Soundview has had more than its share of site visits from HRSA staff examining the clinical side as well as the financial records and this "after-the-fact" certification documentation was never introduced or mentioned during any of these site visits. In the 33 plus years Soundview has been receiving the section 330 grants this has never been brought up. In fact Soundview has been under "draw-down restrictions" since May-2010, where it was mandatory to provide documentation specified by HRSA for their review and "prior approval authorization" in order to draw down any section 330 funds. Even during this time there was never any mention of the "after-the-fact" certification documentation requirement by either [REDACTED] or [REDACTED] the HRSA employees charged with providing Soundview technical assistance. [REDACTED]

[REDACTED] We followed an allocation methodology that is in line with 2 CFR part 230. In addition [REDACTED] our previous CFO provided an email dated November 19, 2010 to [REDACTED] HRSA that describes the methodology utilized for the IDS budget HRSA approved.

Expenditures for the Capital Improvement Program (CIP) Grant - Soundview has entered into a repayment plan with HRSA and has started paying back the \$102,460 which Soundview drew-down, plus interest. This should not be part of the findings as it is being addressed already. Furthermore Soundview emphatically stresses that it has not received any notification from HRSA as to the status of its awarded CIP grant, as evidenced by this draft report. We were awarded funds that never came; HRSA has repeatedly in its documented communications, has told us our grant and the change of scope (CIS) request is still 'under review'; 15 months past the date we asked for the CIS and way past the grant awarded period. This was not addressed in the draft report and Soundview takes objection to the impartial representation of the findings related to this CIP grant.

Soundview had been receiving Section 330 funding since 1978 and over the past 3 decades, serviced over 20,000 users generating over 100,000 visits annually in Bronx County, New York. This community is in a designated medically underserved area, a designated health professional shortage area and is



Soundview HealthCare Network

Comprehensive Community Development Corporation

731 White Plains Road · Bronx, New York 10473 · (718) 589-2232 · Fax (718) 378-2880

considered the unhealthiest county of all 62 counties in New York State (based upon a report issued in a 2010 study¹ conducted by the University of Wisconsin Population Health Institute). Soundview relied on Section 330 funds to help support its mission to provide high quality and social services to all individuals whether or not they have health insurance or the ability to pay for the full cost of care.

The issue here revolves around a mandate to take back over \$6.5M in said funds over 2008-2010, which Soundview directed 100% towards the care of its indigent and underserved patients. This decision to take back Section 330 funds, which it had maintained for over 33 years, is in effect, contributes majorly to closing an important safety net health care provider for approximately 20,000 low income residents of Bronx County. This decision unilaterally devastates the patients we have serviced for decades and who faithfully come to this health center because it is their medical home; to its providers who treat the many chronic and debilitating conditions they have; to the 100+ staff members who work at the center, many of whom dedicated over 15+ years of service to this community and the health center.

Soundview deserves to be treated fairly and with equality; judged upon its own merits and not by association with negative publicity surrounding political disagreements or polemics. It is simply not fair that a health care facility serving so many thousands of families in the Soundview community should be told to repay funds it has solely used to service this indigent population, a move that will force Soundview's closure due to politics and actions taken without due process. It is vital to recognize that there has to be a concerted effort by all parties involved to create a just, democratic and economically equitable basis for carrying out its decisions and actions in light of the impact this has on the lives and health of patients and staff alike. Soundview reiterates that we are about preserving quality health care for this community; it should not be about the politics of destruction of important community facilities.

We respectfully acknowledge our objection to the draft report and its alleged findings.

Respectfully,

Soundview Health Care Network Management

¹ *County Health Rankings: Mobilizing Action Toward Community Health.*

**APPENDIX B: HEALTH RESOURCES AND SERVICES
ADMINISTRATION COMMENTS DATED MAY 3, 2012**



DEPARTMENT OF HEALTH & HUMAN SERVICES

Health Resources and Services
Administration

Rockville, MD 20857

MAY - 3 2012

TO: Inspector General

FROM: Administrator

SUBJECT: OIG Draft Report: "Soundview Health Care Network Did Not Meet Select Financial Performance Measures and Claimed Unallowable Federal Grant Expenditures" (A-02-11-02004)

Attached is the Health Resources and Services Administration's (HRSA) response to the OIG's draft report, "Soundview Health Care Network Did Not Meet Select Financial Performance Measures and Claimed Unallowable Federal Grant Expenditures" (A-02-11-02004). 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 cursive script, 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 – "Soundview Health Care Network Did Not Meet Select Financial Performance Measures and Claimed Unallowable Federal Grant Expenditures" (A-02-11-02004)

The Health Resources and Services Administration (HRSA) appreciates the opportunity to respond to the above subject report.

OIG Finding:

PERFORMANCE RELATIVE TO FINANCIAL PERFORMANCE MEASURES

HRSA Response:

HRSA reviews annual audited financial statements submitted as part of the OMB A-133 audit requirement to monitor trends in financial stability and to identify technical assistance needs. A grant condition regarding non-compliance with Financial Management and Control Policies was placed on Soundview Health Care Network's (Soundview) Notice of Award in fiscal year (FY) 2011, and Soundview's Section 330 grant expired at the end of the FY 2011 grant period on January 31, 2012.

OIG Finding:

UNALLOWABLE EXPENDITURES CLAIMED FOR FEDERAL REIMBURSEMENT

HRSA Response:

HRSA will review the OIG findings regarding cost disallowances consistent with departmental grants policy and Health Center Program authorizing statute. HRSA will work with the Program Support Center (PSC) on appropriate debt collection actions.

OIG Recommendation:

Impose special award conditions to address shortcomings in Soundview's financial performance measures, including days of expenses covered by cash, current and cash ratios, working capital, accounts receivable collections, and revenue deficiency.

HRSA Response:

Soundview's Section 330 grant expired on January 31, 2012, and a new organization was awarded a grant to serve this area/population in the FY 2012 Service Area Competition. Other Soundview funding awards have been placed on restricted drawdown requiring approval by grants management officials prior to disbursement. Therefore, no action will be taken on this recommendation unless restrictions already placed on funds awarded to Soundview were to be removed.

OIG Recommendation:

Ensure that Soundview refunds \$5,310,192 to the Federal Government (\$5,055,333 related to the section 330 grant, \$177, 903 related to the IDS grant, and \$76,956 related to the CIP grant).

HRSA Response:

HRSA will review the OIG findings regarding cost disallowances consistent with departmental grants policy and Health Center Program authorizing statute. HRSA will work with PSC on appropriate debt collection actions. Based on prior findings of unallowable costs related to the American Recovery and Reinvestment Act of 2009, Capital Improvement Program (CIP) grant, the grantee signed a Repayment Agreement on November 28, 2011. Under the agreement, a total of \$87,451.35 was to be repaid in monthly payments of \$4,142.71 which were to begin on December 1, 2011. As of March 12, 2012, PSC has collected three payments for a total of \$12,428.13 under Soundview's established Payment Plan.

OIG Recommendation:

Impose special award conditions to ensure that Soundview's financial system provides accurate, current, and complete disclosure of financial results, identifies the source and application of funds for HHS-sponsored activities, and accounts for section 330 grant funds separately from all other funds.

HRSA Response:

Soundview's Section 330 grant expired on January 31, 2012, and a new organization was awarded a Section 330 grant to serve this area/population in the FY 2012 Service Area Competition. Other Soundview funding awards have been placed on restricted drawdown requiring approval by grants management officials prior to disbursement. Therefore, no action will be taken on this recommendation unless restrictions already placed on funds awarded to Soundview were to be removed.

OIG Recommendation:

Ensure that Soundview develops policies and procedures for determining the reasonableness, allocability, and allowability of expenditures.

HRSA Response:

Soundview's Section 330 grant expired on January 31, 2012, and a new organization was awarded a Section 330 grant to serve this area/population in the FY 2012 Service Area Competition. Other Soundview funding awards have been placed on restricted drawdown requiring approval by grants management officials prior to disbursement.

† Office of Inspector General note: The \$12,428.13 identified by HRSA represents payments made by Soundview on our recommended disallowances. These payments were received after our fieldwork was completed.

Therefore, no action will be taken on this recommendation unless restrictions already placed on funds awarded to Soundview were to be removed.

OIG Recommendation:

Educate Soundview officials on Federal requirements for after-the-fact certifications and the proper period to charge costs.

HRSA Response:

Soundview's Section 330 grant expired on January 31, 2012, and a new organization was awarded a Section 330 grant to serve this area/population in the FY 2012 Service Area Competition. No action will be taken on this recommendation unless restrictions already placed on funds awarded to Soundview were to be removed.

**APPENDIX C: HEALTH RESOURCES AND SERVICES
ADMINISTRATION COMMENTS DATED AUGUST 9, 2012**



DEPARTMENT OF HEALTH & HUMAN SERVICES

Health Resources and Services
Administration

Rockville MD 20857

AUG 9 2012

TO: Inspector General

FROM: Administrator

SUBJECT: OIG Draft Report: "Soundview Health Care Network Did Not Meet Select Financial Performance Measures and Claimed Unallowable Federal Grant Expenditures" (A-02-11-02004)

Attached is the Health Resources and Services Administration's (HRSA) comments on OIG's June 4, 2012, revised draft report, "Soundview Health Care Network Did Not Meet Select Financial Performance Measures and Claimed Unallowable Federal Grant Expenditures" (A-02-11-02004). 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 cursive script, 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 –
“Soundview Health Care Network Did Not Meet Select Financial Performance Measures
and Claimed Unallowable Federal Grant Expenditures” (A-02-11-02004)**

The Health Resources and Services Administration (HRSA) appreciates the opportunity to respond to the OIG's revised June 4, 2012, draft report. This is a supplement to HRSA's previous comments of May 3, 2012, in response to the original draft report. HRSA appreciates the OIG's scrutiny of whether Soundview Health Care Network (Soundview) met select HRSA financial performance measures and whether its federal grant expenditures constituted allowable grant costs. Moreover, HRSA appreciates the OIG's significant contributions to strengthening grantee performance and enhancing program integrity through this and other audits in support of HRSA federal grant programs. OIG's work and useful feedback has provided invaluable information to support the continued development of HRSA's section 330 grant program, as well as other HRSA grant programs. Accordingly, HRSA is using the information and insights provided by the OIG's draft report as more fully discussed below.

The OIG noted, relative to its findings on unallowable expenditures claimed for federal reimbursement, that Soundview did not dispute the criteria cited in the OIG's report or its findings, but questioned OIG's conclusions on other grounds. HRSA concurs with OIG's comments regarding the applicability of federal cost principles and administrative procurement requirements to federal grant funds. In addition, HRSA will issue clarifying policy guidance to affirm this understanding; inform section 330 grantees that they must separately account for federal and non-federal grant budgets and expenditures (and have these records available to auditors); and instruct grantees that when they wish to use non-grant funds for purposes that are not allowable under cost principles or are not consistent with procurement requirements under 45 CFR Part 74 pursuant to section 330(e)(5)(D), they must demonstrate to HRSA that any non-grant expenditures are not prohibited under section 330 of the PHS Act and further the objectives of the project or program.

The OIG also recommended that HRSA ensure that Soundview refunds federal grant dollars related to the Increased Demand for Services (IDS) and Capital Improvement Program (CIP) grants to the federal government (as noted on page 9 of the report, bullet #2). HRSA concurs with OIG's comments on the IDS and CIP grants and has begun to work with Soundview to determine the amount of unallowable costs related to the IDS and CIP grants and will work with the Program Support Center on appropriate debt collection actions.

HRSA also notes the OIG's statement on page 12 of the draft report, that it plans to apply the same standards for all audits of HRSA section 330 grantees. HRSA therefore understands that the OIG recommendation as to the options available to HRSA in addressing allowability/disallowance of costs (as noted on page 9 of the report, bullet #3) also will be similarly applied in those situations.

In conclusion, HRSA thanks OIG for its work in this important area and for the opportunity to respond to its draft report.