

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**ALLOWABILITY OF RECOVERY ACT
COSTS CLAIMED BY BEAUFORT-
JASPER-HAMPTON COMPREHENSIVE
HEALTH SERVICES, INC., FOR THE
PERIOD MARCH 27, 2009, THROUGH
JULY 20, 2011**

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



Lori S. Pilcher
Regional Inspector General

September 2012
A-04-11-08009

Office of Inspector General

<http://oig.hhs.gov>

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OFFICE OF AUDIT SERVICES FINDINGS AND OPINIONS

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

EXECUTIVE SUMMARY

BACKGROUND

The Health 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, 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 (Recovery Act), P.L. No. 111-5, enacted February 17, 2009, HRSA received \$2.5 billion, including \$2 billion 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), Facility Investment Program (FIP), and Capital Improvement Program (CIP) grants.

Beaufort-Jasper-Hampton Comprehensive Health Services, Inc. (the grantee), is a not-for-profit corporation established in 1969 to provide comprehensive health services to residents of the socially and economically deprived areas of Beaufort and Jasper Counties in South Carolina. In 1999, the service area was expanded to include Hampton County as well. The grantee offers family practice, pediatrics, dental, obstetrics and gynecology, internal medicine, pharmacy, selected mental health, and other medical health services.

HRSA awarded the grantee three Recovery Act grants totaling \$9,101,293, with 2-year grant performance periods starting March 27, 2009, June 29, 2009, and December 31, 2009, for the IDS, CIP, and FIP grants, respectively. As of July 20, 2011, the grantee had claimed \$1,498,800 under the three grants. For the FIP grant, HRSA allowed an extension of the grant period to December 31, 2012.

The grantee must comply with Federal cost principles in 2 CFR part 230, *Cost Principles for Non-Profit Organizations*, and financial management system requirements in 45 CFR § 74.21.

OBJECTIVE

Our objective was to determine whether Recovery Act costs that the grantee claimed were allowable under the terms of the grants and applicable Federal regulations.

SUMMARY OF FINDINGS

Of the \$1,498,800 in Recovery Act costs that the grantee claimed, \$1,147,580 was allowable under the terms of the grants and applicable Federal regulations. However, we could not determine whether \$351,220 of IDS grant expenditures was allowable because the grantee did not account for IDS funds separately from other grant funds or maintain adequate personnel activity reports for each employee who worked on the grant.

Additionally, the grantee's accounting practices did not meet all Federal requirements. Specifically, the grantee did not identify in its asset records Federal equipment that it purchased with Federal funds, did not complete a timely reconciliation of equipment to its asset records, and occasionally allocated expenditures to the wrong grants. As a result, the grantee risked exposing Federal assets to misappropriation and improper reporting of grant expenditures.

These oversights occurred because the grantee had insufficient controls over grant accounting, equipment, and reporting.

RECOMMENDATIONS

We recommend that HRSA:

- either require the grantee to refund to the Federal Government \$351,220 related to the IDS grant or work with the grantee to determine whether any of the \$351,220 was allowable;
- ensure that the grantee'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 each grant separately from all other funds; and
- educate grantee officials on Federal requirements for maintaining personnel activity reports, identifying Federal property, and reconciling physical assets with property records.

GRANTEE COMMENTS

In written comments on our draft report, the grantee agreed that it commingled IDS expenditures in its accounting system with other operational payments; however, it did not agree that it should

be required to refund to the Federal Government \$351,220 related to the IDS grant. The grantee did not entirely agree with our finding that it did not maintain adequate documentation of personnel costs for the IDS grant because it completed time cards for the individuals employed under the grant. However, the grantee did not address the finding that the time cards for these individuals were not uniformly approved by a responsible official or that the time cards did not reflect an after-the-fact determination of the actual activity of each employee.

The grantee concurred with the findings that it did not appropriately identify Federal ownership of some equipment in its asset records and that it did not complete a timely reconciliation of a physical inventory of equipment to its asset records. The grantee's comments, except for proprietary and personally identifiable information, are included in their entirety as Appendix A.

OFFICE OF INSPECTOR GENERAL RESPONSE

After review and consideration of the grantee comments and documentation provided, we determined that our findings and recommendations are appropriate.

HEALTH RESOURCES AND SERVICES ADMINISTRATION COMMENTS

In written comments on our draft report, HRSA concurred with our recommendations. HRSA's comments are included in their entirety as Appendix B.

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INTRODUCTION

BACKGROUND

The Health Center Program

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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 (Recovery Act), P.L. No. 111-5, enacted February 17, 2009, HRSA received \$2.5 billion, including \$2 billion 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), Facility Investment Program (FIP), and Capital Improvement Program (CIP) grants.

Beaufort-Jasper-Hampton Comprehensive Health Services, Inc.

Beaufort-Jasper-Hampton Comprehensive Health Services, Inc. (the grantee), is a not-for-profit corporation established in 1969 to provide comprehensive health services to residents of the socially and economically deprived areas of Beaufort and Jasper Counties in South Carolina. In 1999, the service area was expanded to include Hampton County as well. The grantee offers family practice, pediatrics, dental, obstetrics and gynecology, internal medicine, pharmacy, selected mental health, and other medical health services.

HRSA awarded the grantee three Recovery Act grants totaling \$9,101,293, with 2-year grant performance periods starting March 27, 2009, June 29, 2009, and December 31, 2009, for the IDS, CIP, and FIP grants, respectively. As of July 20, 2011, the grantee had claimed \$1,498,800 under the three grants. For the FIP grant, HRSA allowed an extension to the grant period until December 31, 2012.

Federal Requirements for Grantees

Title 45, part 74, of the Code of Federal Regulations establishes uniform administrative requirements governing HHS awards to nonprofit organizations, institutions of higher education, hospitals and commercial entities. As a nonprofit organization in receipt of Federal funds, the grantee 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 expenditures be 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 and must ensure that accounting records are supported by source documentation (45 CFR §§ 74.21(b)(1) and (7)).

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

Our objective was to determine whether Recovery Act costs that the grantee claimed were allowable under the terms of the grants and applicable Federal regulations.

Scope

We reviewed costs totaling \$1,498,800 that the grantee charged to its IDS, FIP, and CIP grants for the period March 27, 2009, through July 20, 2011. The grantee claimed \$351,220 under the IDS grant; \$310,000 under the FIP grant; and \$837,580 under the CIP grant for a total of \$1,498,800 for the period March 27, 2009, through July 20, 2011. We reviewed 100 percent of the costs claimed for the three grants as of July 20, 2011. We did not perform an assessment of the grantee's internal control structure beyond those that pertained directly to our objective.

We performed our fieldwork at the grantee's administrative office in Ridgeland, South Carolina, in August and November 2011.

Methodology

To accomplish our objective, we:

- reviewed applicable Federal laws, regulations, and guidance;
- reviewed HRSA's grant announcements and the grantee's grant applications and Notices of Grant Award;
- reviewed the grantee's policies and procedures manual;

- reviewed the grantee’s bylaws and articles of incorporation;
- interviewed grantee officials;
- reviewed the grantee’s board minutes covering the audit period;
- reviewed the grantee’s independent auditor’s reports and management letters for fiscal years 2008, 2009, and 2010;
- identified expended HRSA grant funds in the grantee’s accounting records as of July 20, 2011;
- reconciled HRSA grant draw downs to HRSA grant expenditures;
- reconciled HRSA grant expenditures per accounting records to Federal financial reports (SF-425);
- compared budgeted and actual HRSA grant expenditures;
- reviewed costs claimed under the HRSA grants for allowability; and
- discussed the results of our review with the grantee 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 \$1,498,800 in Recovery Act costs that the grantee claimed, \$1,147,580 was allowable under the terms of the grants and applicable Federal regulations. However, we could not determine whether \$351,220 of IDS grant expenditures was allowable because the grantee did not account for IDS funds separately from other grant funds or maintain adequate personnel activity reports for each employee who worked on the grant.

Additionally, the grantee’s accounting practices did not meet all Federal requirements. Specifically, the grantee did not identify in its asset records Federal equipment that it purchased with Federal funds, did not complete a timely reconciliation of equipment to its asset records, and occasionally allocated expenditures to the wrong grants. As a result, the grantee risked exposing Federal assets to misappropriation and improper reporting of grant expenditures.

These oversights occurred because the grantee had insufficient controls over grant accounting, equipment, and reporting.

EXPENDITURES CLAIMED FOR FEDERAL REIMBURSEMENT

Federal Requirements

HRSA regulations governing the Health Center Program require that all grant payments be accounted for separately from all other funds, including funds derived from other grant awards (42 CFR § 51c.112(a)). 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)). Grantee records must adequately identify “the source and application of funds for HHS-sponsored activities,” including “information pertaining to Federal awards, authorizations, obligations, unobligated balances, assets, outlays, income and interest” (45 CFR § 74.21(b)(2)). Grantees also must have written procedures for determining the 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)). The IDS Notice of Grant Award includes a provision that recipients must account for each Recovery Act award and subaward separately and draw down funds on an award-specific basis. The grant terms and conditions specifically prohibit the pooling of Recovery Act award funds with other funds for drawdown or other purposes.

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 and 8.m, for salaries and wages to be allowable for Federal reimbursement, grantees must maintain personnel activity reports that reflect the distribution of activity of each employee whose compensation is charged, in whole or in part, directly to Federal awards. These reports 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. Furthermore, documented payrolls must be approved by a responsible official.

Fund Segregation and Personnel Activity Reports

The grantee segregated its CIP and FIP expenditures, but it did not segregate its IDS expenditures. Instead, it comingled IDS expenditures in its accounting system with other operational payments. Although the grantee’s accounting system was capable of segregating costs by grant, its general ledger did not have a separate account that identified IDS grant expenditures. The grantee chose not to segregate the IDS funds because of the limited duration of the grant. As a result, we could not determine which expenditures were attributable to the IDS grant.

The grantee also did not maintain adequate documentation of personnel costs for the IDS grant, as required by 2 CFR part 230, Appendix B, §§ 8.b(2) and 8.m. Specifically, the grantee did not maintain adequate personnel activity reports or ensure supervisory approval of personnel time cards.

The grantee provided a list of individuals it claimed to have hired or retained to provide services under the IDS grant. We reviewed time-card reports for all eight currently-employed individuals for the period December 27, 2010, through May 27, 2011. However, the grantee did not meet the requirements of a complete personnel activity report because their time-card reports did not reflect an after-the-fact determination of the actual activity of each employee. Furthermore, the time cards, which are part of a documented payroll, were not uniformly approved by a responsible official. Of the time-card reports reviewed, only one showed supervisory approval of all time reported. Five time-card reports showed no supervisory approval, and the remaining two showed at least eight hours reported without supervisory approval.

Because the grantee did not segregate its IDS grant or adequately document personnel activity, we could not determine the allowability of \$351,220 in IDS expenditures that the grantee claimed for the period March 27, 2009, through March 26, 2011.

GRANTEE ACCOUNTING PRACTICES

Federal Requirements

Pursuant to 45 CFR § 74.34(f), grantees must maintain equipment records that identify whether title of their equipment vests in the recipient or the Federal Government. In addition, grantees shall take a physical inventory of equipment and reconcile the results with equipment records at least once every 2 years.

Pursuant to 2 CFR part 230, Appendix A, § A. 2, to be allowable under an award, costs must be reasonable for the performance of the award and be allocable thereto. Costs must also be adequately documented.

Pursuant to Office of Management and Budget Circular A-133, entities that receive Federal funds must itemize proceeds in a *Statement of Expenditures of Federal Awards* (SEFA).

Equipment Records and Inventory

The grantee did not appropriately identify Federal ownership of some equipment in its asset records. The grantee purchased medical and office equipment totaling \$25,293 with CIP grant funds, but it did not list these assets in its equipment records as being owned by the Federal government.

Additionally, the grantee did not complete a timely reconciliation of a physical inventory of equipment to its asset records. According to the Independent Auditor's Report dated February 28, 2011, it had been more than 2 years since the grantee took the last physical inventory and reconciled the results to its asset records. The grantee's corrective action plan to address this finding was to complete a physical inventory and reconciliation by May 31, 2011. However, the grantee did not complete the physical inventory until June 15, 2011, and had not completed a reconciliation as of December 20, 2011.

As a result of its equipment accounting practices, the grantee risked exposing Federal assets to misappropriation.

Grant Accounting and Reporting Controls

Of the \$1,147,580 in costs claimed for the CIP and FIP grants, six transactions totaling \$15,180 were charged to the wrong grant:

- three transactions, totaling \$6,150, that should have been charged to the FIP grant were charged to the CIP grant and
- three transactions, totaling \$9,030, that should have been charged to the CIP grant were charged to another HRSA grant.¹

These improper transactions occurred because of occasional lapses in the grantee's controls over grant accounting and reporting. Specifically, while check requests listed the correct grant accounts for expenditures, the actual expenditures were not input correctly into the accounting records. As a result of these lapses, the grantee improperly reported expenditures on its final SF-425 for the CIP grant.

Additionally, two FIP grant transactions totaling \$45,358 were not appropriately authorized. Two purchase transactions for \$16,060 and \$29,298, respectively, were made without written approval from the Executive Director. These inappropriately authorized transactions occurred because the grantee failed to follow its policies and procedures, which state that all single-item purchases of \$10,000 or more must have written approval from the Executive Director. As a result, the grantee risked misappropriating Recovery Act funds; however, for these two transactions, the expenditures were grant related and allowable.

RECOMMENDATIONS

We recommend that HRSA:

- either require the grantee to refund to the Federal Government \$351,220 related to the IDS grant or work with the grantee to determine whether any of the \$351,220 was allowable;
- ensure that the grantee'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 each grant separately from all other funds; and

¹ We discussed these six transactions with the grantee and it made adjusting journal entries to charge these expenditures to the correct grants.

- educate grantee officials on Federal requirements for maintaining personnel activity reports, identifying Federal property, and reconciling physical assets with property records.

GRANTEE COMMENTS

In written comments on our draft report, the grantee agreed that it commingled IDS expenditures in its accounting system with other operational payments; however it did not agree that it should be required to refund to the Federal Government \$351,220 related to the IDS grant. The grantee did not entirely agree with our finding that it did not maintain adequate documentation of personnel cost for the IDS grant because it completed time cards for the individuals employed under the grant. However, the grantee did not specifically address the finding that the time cards for these individuals were not uniformly approved by a responsible official or that the time cards did not reflect an after-the-fact determination of the actual activity of each employee.

The grantee concurred with the findings that it did not appropriately identify Federal ownership of some equipment in its asset records and that it did not complete a timely reconciliation of a physical inventory of equipment to its asset records. The grantee's comments, except for proprietary and personally identifiable information, are included in their entirety as Appendix A.

OFFICE OF INSPECTOR GENERAL RESPONSE

After review and consideration of the grantee comments and documentation provided, we determined that our findings and recommendations are appropriate.

HEALTH RESOURCES AND SERVICES ADMINISTRATION COMMENTS

In written comments on our draft report, HRSA concurred with our recommendations. HRSA's comments are included in their entirety as Appendix B.



**BEAUFORT-JASPER-HAMPTON
COMPREHENSIVE HEALTH SERVICES, INC.**

July 12, 2012

Lori S. Pilcher
Regional Inspector General for Audit Services
Office of Audit Services, Region IV
61 Forsyth Street, SW, Suite 3T41
Atlanta, GA 30303

RE: Report Number A-04-11-08009

Dear Ms. Pilcher:

We are in receipt of the above referenced report, received in our office on June 29, 2012. You granted an additional five (5) day extension for our response.

Enclosed herewith is our response to your findings. We hope that our responses meet with your satisfaction, answer any outstanding questions, and resolve any outstanding issues. We shall be happy to supplement our response should you so request.

Respectfully,

Roland J. Gardner
Chief Executive Officer

cc: Board of Directors, BJHCHS, Inc.
John Parham, CFO, BJHCHS, Inc.
Truman Mayfield, Audit Manager, Office of Audit Services, Region IV

RESPONSE TO AUDIT REPORT AND FINDINGS

Beaufort-Jasper-Hampton Comprehensive Health Services, Inc., hereafter referred to as the "Grantee", is a non-profit organization providing health care services in three Counties in the South Carolina Low Country. These Counties include Beaufort, Jasper and Hampton.

Pursuant to a notice of availability of funds the Grantee made an application for funding. A notice of grant award dated March 27, 2009 was received by the Grantee shortly thereafter. HRSA awarded the grantee three Recovery Act grants. This response addresses the IDS grant in the amount of \$351,220.00. The purposes of the grant were 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. We feel that the IDS grant allowed us to achieve and satisfy these purposes with a very high degree of success.

The IDS grant was utilized to retain certain critical staff and to hire new staff. Five staff members were retained and five new staff members were hired. It is quite probable that the staff retained would have been terminated in their employment and the new staff would not have been hired without the availability of the IDS funds. (See attachment A). Among the very critical personnel hired were a hospitalist, a dentist, and a certified mid wife. While the IDS funds did not fully support the ten positions, without question, the funds "bridged the gap" and made their hiring and retention possible.

The impact of the IDS funds was substantial indeed. During the grant periods and with the utilization of grant funds the Grantee's new patients increased by [REDACTED]. Of the [REDACTED] new patients, [REDACTED] were totally new unduplicated patients. Of these new patients [REDACTED] were

Office of Inspector General Note - The deleted text has been redacted because it is personally identifiable information.

without health insurance and had no medical home. The new patients had a total of [REDACTED] visits or encounters (see attachment B).

A Dentist was hired at the Hardeeville Center in Jasper County. This center had not previously provided dental services and the dental patients seen during the grant period would not have otherwise received dental care and treatment. The total number of patient dental visits during the program period was [REDACTED]. This was only possible with the IDS grant.

The Director of medical services had been seeing patients at the local hospital in Beaufort County and performing her administrative duties at the administrative office prior to the hiring of the hospitalist (with IDS Grant Funds). She had worked long strenuous hours over an extended period of time providing in-hospital treatment and care as well as supervising the entire medical staff (direct and support services). This problem was alleviated by the hospitalist hired under the IDS grant: see call schedule re: [REDACTED] (attachment C).

Grantee did not establish a separate cost center for the ten employees supported by the IDS grant. Grantee reasoned that some of the employees supported by the IDS grant were "currently employed". Secondly, grantee expected all of the employees supported by the IDS grant would be retained beyond the duration of the grant period. Third, the IDS grant funds consisted of approximately one third (1/3) of the total funds required to support the program; they in fact supplemented the total cost.

Grantee's method of accounting for the IDS grant funds separately was by establishing fund number 4166. From this fund account, established specifically for IDS, approximately one eighth (1/8) (\$43,777.50) of the funds were drawn down on a quarterly basis. It was the expense side which did not meet the technical requirements. Again, the account was set up this way for the three reasons cited above.

Office of Inspector General Note - The deleted text has been redacted because it is personally identifiable information.

Grantee does not entirely concur with the finding that it did not maintain adequate documentation of personnel cost for the IDS grant. Grantee uses the automated time keeping system. This system is discussed in Appendix D. Of the ten persons employed under the IDS grant, seven strictly complied with the time keeping system. The three which did not were the providers: hospitalist [REDACTED], Dentist [REDACTED] and the nurse midwife [REDACTED].

[REDACTED] was assigned to Beaufort Memorial Hospital, in Beaufort County, on a daily basis. There was no separate "clock in" system maintained at Beaufort Memorial Hospital. Nevertheless, there was constant and continuous communication between [REDACTED] and the Medical Director on a daily basis. In addition to the Medical Director being in constant contact she also supervised the call schedule and was herself included in the call schedule. She spends many hours at the hospital supervising physicians. She would be quite aware if the hospitalist did not work the hours he claimed. His hours (to include overtime) are called in weekly. Once called in they are confirmed orally by the Medical Director and placed into the payroll system.

The Nurse Midwife worked at four separate locations (clinics) and at the hospital. Her time was kept by time sheets, called in, and put into the payroll system.

The Dentist worked at the Hardeeville Clinic and the Hardeeville public school complex. His time was also called in and placed into the payroll system.

The physician's assistant worked at the hospital and followed the same time keeping system as [REDACTED]

Grantee is providing attachments which establishes and documents personnel costs. For [REDACTED]; time card report with supervisor approval and summary charge analysis report documenting each day worked, hours worked and claims made or billed for services. The same attachments are provided for [REDACTED], and [REDACTED] (Attachment E as a group).

Office of Inspector General Note - The deleted text has been redacted because it is personally identifiable information.

Grantee initially intended to hire a physician (hospitalist) and two Physician Assistants. This was discussed at the March 2009 regular Board meeting. The Nurse Midwife was discussed at the April 2009 regular Board meeting. Credentialing for the Nurse Midwife [REDACTED] was discussed at the regular June meeting and the fact that [REDACTED] would begin employment on July 3, 2009 was discussed at the regular July 2009 Board meeting. Also discussed at the July 2009 Board meeting was credentialing for [REDACTED]

Essentially, the entire IDS grant including its purposes, the hires and pay, etc. was discussed at length at four regular Board meetings. The minutes are written in summary form. Nevertheless, the program was presented to the Board, in detail, and approved. The Board was well aware of the ten (10) employees under the program and approved their appointments. Grantee has attached Board minutes (Attachment F).

Grantee concurs with the finding that it did not appropriately identify Federal ownership of some equipment in its asset records and untimely production of a physical inventory and reconciliation to the asset records.

We do concur that the reconciliation process has been delinquent in the past. However, historically a physical inventory has been taken on a timely basis; the challenge was performing reconciliation between the general ledger and the asset record. It can be noted on page 30 of the audited financial statements performed by McGregor and Company for the fiscal year ending May 31, 2011 that this was no longer a finding.

In our MIP accounting software, every major asset acquisition is listed as to fund or grant source. However, for routine nonspecific grants or funds acquisitions, purchases default to our general fund. We do not have a separate bank account for each grant we administer, therefore with one operating account used to pay all obligations, it would be very difficult if not

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impossible to state with certainty what dollars are paying for what expenditures. We will be open for suggestions and/or receptive to know how other organizations accomplish this or your recommendation.

Grantee believes that though all of the technical accounting requirements were not complied with as required by 2 CFR part 230, Appendix A, sec. A-2g, they have been complied with in substance and in fact. Also, with respect to 2 CFR part 230, Appendix B, secs. B(1) and 8:m.

Grantee is also providing herewith attachments showing direct cost of direct salaries over the grant period. Payroll records are also included. Also, and importantly, grantee is providing herewith an attachment **which shows: provider, dates of services rendered to patients, charges associated with services rendered and the volume activity for each day during the entire program period, (Summary Charge Analysis Report).**

Grantee believes that it has shown the following:

1. There were ten (10) employees assigned to the IDS grant, four of whom were medical providers and six of whom were support staff. All of the ten (10) employees provided services directly **in furtherance of the grant purposes.**
2. The ten (10) employees were paid well in excess of the grant amount. [REDACTED] [REDACTED]

[REDACTED]

[REDACTED]. We have shown with respect to [REDACTED] in particular, each and every day he worked at the hospital, dates of services, charges for services rendered and activity volume. Though no separate mechanism was established at the hospital for time keeping, the Medical Director communicated with him on a daily basis and his time entered into Grantee's established time keeping system. The Board Minutes

Office of Inspector General Note - The deleted text has been redacted because it is personally identifiable information.

adequately reflects his appointment under the IDS grant. We believe that [REDACTED] salary standing alone as an allowable cost should justify the avoidance of a refund of grant funds. We do not, however, concede that the other salaries and personnel costs should be disallowed. We believe that we have also provided adequate documentation with respect to the other nine employees as well.

3. We believe that Grantee has met its obligation to incur and document allowable costs equal to or in excess of grant dollars drawn from payment management systems.

Finally, and in conclusion, it is Grantee's position that, based on this response it should be recommended that HRSA accept this document as sufficient proof that the \$351,220 is allowable.

Office of Inspector General Note - The deleted text has been redacted because it is personally identifiable information.

APPENDIX B: HEALTH RESOURCES AND SERVICES
ADMINISTRATION COMMENTS

Page 1 of 3

DEPARTMENT OF HEALTH & HUMAN SERVICES

Health Resources and Services
Administration

Rockville, MD 20857

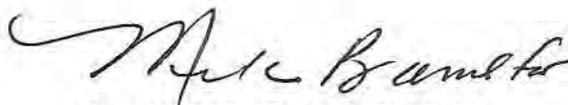
SEP 12 2012

TO: Inspector General

FROM: Administrator

SUBJECT: OIG Draft Report: "Allowability of Recovery Act Costs Claimed by Beaufort-Jasper-Hampton Comprehensive Health Services, Inc., for the Period March 27, 2009, Through July 20, 2009" (A-04-11-08009)

Attached is the Health Resources and Services Administration's (HRSA) response to the OIG's draft report, "Allowability of Recovery Act Costs Claimed by Beaufort-Jasper-Hampton Comprehensive Health Services, Inc., for the Period March 27, 2009, Through July 20, 2009" (A-04-11-08009). If you have any questions, please contact Sandy Seaton in HRSA's Office of Federal Assistance Management at (301) 443-2432.



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

Attachment

**Health Resources and Services Administration's Comments on the OIG Draft Report –
“Allowability of Recovery Act Costs Claimed by Beaufort-Jasper-Hampton
Comprehensive Health Services, Inc., for the Period March 27, 2009,
Through July 20, 2011” (A-04-11-08009)**

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 either require the grantee to refund to the Federal Government \$351,220 related to the IDS grant or work with the grantee to determine whether any of the \$351,220 was allowable.

HRSA Response:

HRSA concurs with the OIG recommendation and will work with the grantee to determine whether any of the \$351,220 of IDS grant expenditures should be refunded.

OIG Recommendation to HRSA:

We recommend that HRSA ensure that the grantee'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 each grant separately from all other funds.

HRSA Response:

HRSA concurs with the OIG recommendation and will assist the grantee in improving its financial system to provide accurate, current, and complete disclosure of financial results, as well as identify the source and application of funds for HHS-sponsored activities. In addition, HRSA will work with the grantee to account for each type of grant fund to improve its tracking of HRSA grants.

OIG Recommendation to HRSA:

We recommend that HRSA educate grantee officials on Federal requirements for maintaining personnel activity reports, identifying Federal property, and reconciling physical assets with property records.

HRSA Response:

HRSA concurs with the OIG recommendation and will work with the grantee to ensure that grantee officials are educated regarding federal requirements as recommended above.