

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**ALLOWABILITY OF
RECOVERY ACT COSTS CLAIMED
BY GRACE HILL NEIGHBORHOOD
HEALTH CENTERS, INC.,
FOR THE PERIOD JUNE 29, 2009,
THROUGH JUNE 28, 2011**

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



Patrick J. Cogley
Regional Inspector General

August 2012
A-07-11-05021

Office of Inspector General

<http://oig.hhs.gov>

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OFFICE OF AUDIT SERVICES FINDINGS AND OPINIONS

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

EXECUTIVE SUMMARY

BACKGROUND

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

Under the American Recovery and Reinvestment Act of 2009, P.L. No. 111-5 (Recovery Act), enacted February 17, 2009, HRSA received \$2.5 billion, \$2.0 billion of which was to expand the Health Center Program by serving more patients, stimulating new jobs, and meeting the expected increase in demand for primary health care services among the Nation's uninsured and underserved populations. HRSA awarded a number of grants using Recovery Act funding in support of the Health Center Program, including Increased Demand for Services (IDS) and Capital Improvement Program (CIP) grants.

Grace Hill Neighborhood Health Centers, Inc. (Grace Hill), is a nonprofit organization founded in 1906 that provides low-cost primary and preventive health care at six locations to primarily low-income and uninsured residents in the city of St. Louis, Missouri. Under the provisions of the Recovery Act, HRSA awarded Grace Hill two grants totaling \$2,460,075. These grants included an IDS grant in the amount of \$773,465 and a CIP grant of \$1,686,610. This report presents the results of our review of the CIP grant (number C81CS13988); we are separately reporting on the results of our review of the IDS grant.

OBJECTIVE

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

SUMMARY OF FINDING

Costs claimed by Grace Hill under the CIP Recovery Act grant were generally allowable pursuant to applicable Federal regulations and the terms of the grant. However, Grace Hill's accounting system allowed for a cash advance of \$77,712 for costs that were not directly related to the project. Although these costs were later reclassified, the potential existed for Grace Hill to accrue interest on those funds until they were actually used to pay for direct project costs.

RECOMMENDATION

We recommend that HRSA ensure that Grace Hill establishes adequate controls to ensure that the timing and amount of cash advances are as close as is administratively feasible to the timing of the actual disbursements for direct program or project costs.

GRANTEE COMMENTS

In written comments on our draft report, Grace Hill agreed with our recommendation. Grace Hill's comments appear in their entirety as Appendix A.

HEALTH RESOURCES AND SERVICES ADMINISTRATION COMMENTS

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

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INTRODUCTION

BACKGROUND

The Health Center Program

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

American Recovery and Reinvestment Act 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, \$2.0 billion of which was to expand the Health Center Program by serving more patients, stimulating new jobs, and meeting the expected increase in demand for primary health care services among the Nation's uninsured and underserved populations. HRSA awarded a number of grants using Recovery Act funding in support of the Health Center Program, including Increased Demand for Services (IDS) and Capital Improvement Program (CIP) grants.

Grace Hill Neighborhood Health Centers, Inc.

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

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

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

This report presents the results of our review of the CIP grant (number C81CS13988); we are separately reporting on the result of our review of the IDS grant.

Federal Requirements for Federal Grantees

Title 45, part 74, of the Code of Federal Regulations (CFR) establishes uniform administrative requirements governing HHS grants and agreements awarded to nonprofit organizations. As a nonprofit organization in receipt of Federal funds, Grace Hill must comply with Federal cost

principles in 2 CFR pt. 230, *Cost Principles for Non-Profit Organizations* (Office of Management and Budget Circular A-122), incorporated by reference at 45 CFR § 74.27(a). These cost principles require that grant expenditures submitted for Federal reimbursement be allowable.

To help ensure that Federal requirements are met, grantees must maintain financial management systems in accordance with 45 CFR § 74.21. These systems must provide for accurate, current, and complete disclosure of the financial results of each HHS-sponsored project or program (45 CFR § 74.21(b)(1)) and must ensure that accounting records are supported by source documentation (45 CFR § 74.21(b)(7)). Grantees also must have written procedures for determining the allowability of expenditures in accordance with applicable Federal cost principles and the terms and conditions of the award (45 CFR § 74.21(b)(6)).

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

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

Scope

Our review included CIP Recovery Act costs totaling \$1,686,610 that Grace Hill claimed for grant number C81CS13988 from June 29, 2009, through June 28, 2011.

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

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

Methodology

To accomplish our objective, we:

- reviewed relevant Federal laws, regulations, and guidance;
- reviewed Grace Hill's Recovery Act grant application package and HRSA's Notices of Grant Award;
- reviewed Grace Hill's policies and procedures;
- interviewed Grace Hill officials to gain an understanding of its accounting systems, internal controls, and implementation of the Recovery Act grant awards;
- compared total costs to funds drawn from Recovery Act grants; and

- discussed the results of our review with Grace Hill officials on September 30, 2011.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our finding and conclusions based on our audit objective.

FINDING AND RECOMMENDATION

Costs claimed by Grace Hill under the CIP Recovery Act grant were generally allowable pursuant to applicable Federal regulations and the terms of the grant. However, Grace Hill's accounting system allowed for a cash advance of \$77,712 for costs that were not directly related to the project. Although these costs were later reclassified, the potential existed for Grace Hill to accrue interest on those funds until they were actually used to pay for direct project costs.

MISALLOCATED EXPENDITURES

Pursuant to 45 CFR § 74.22 (b)(2), unless inconsistent with statutory program purposes, the timing and amount of cash advances shall be as close as is administratively feasible to the timing of the actual disbursements by the recipient organization for direct program or project costs and for the proportionate share of any allowable indirect costs.

45 CFR § 74.22 (g) states that unless inconsistent with statutory program purposes, to the extent available, recipients shall disburse funds available from repayments to and interest earned on a revolving fund, program income, rebates, refunds, contract settlements, audit recoveries, and interest earned on such funds before requesting additional cash payments.

According to the HHS Grants Policy Statement, except as provided in 45 CFR § 74.22 (k), any HHS recipient subject to the requirements of 45 CFR part 74 that receives advance payments must maintain those advances in an interest-bearing account. The Policy Statement also states that any interest earned by nongovernmental recipients on advances of Federal funds under all Federal grant awards and subawards that, in the aggregate, exceeds \$250 per year must be remitted annually to HRSA through the HHS Payment Management System.

Grace Hill received a cash disbursement for the CIP grant that included costs that were not directly related to the project. Specifically, Grace Hill's accounting system allowed for \$77,712 in non-direct project costs to be allocated to the CIP project. Grace Hill received a cash disbursement on September 10, 2009, that included an advance for funds that were not directly related to the project. Grace Hill subsequently recognized the error and reclassified the costs on December 31, 2009. However, Grace Hill continued to maintain these funds until the cash disbursement on February 25, 2010, was reduced by the \$77,712. Therefore, Grace Hill had the potential to earn interest on these funds for 5 months, at which time the funds were used to cover direct project costs.

The interest potentially earned by Grace Hill in this case was immaterial. However, the potential existed for Grace Hill to earn interest that it would then have had to either use for project costs or, at the end of the year, remit to HRSA.

RECOMMENDATION

We recommend that HRSA ensure that Grace Hill establishes adequate controls to ensure that the timing and amount of cash advances are as close as is administratively feasible to the timing of the actual disbursements for direct program or project costs.

GRANTEE COMMENTS

In written comments on our draft report, Grace Hill agreed with our recommendation. Grace Hill's comments appear in their entirety as Appendix A.

HEALTH RESOURCES AND SERVICES ADMINISTRATION COMMENTS

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

APPENDIXES

APPENDIX A: GRANTEE COMMENTS



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

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

June 25, 2012

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

Dear Mr. Cogley:

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

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

Sincerely,

Janet Voss, CPA
Vice President and CFO

Enclosures
-As stated





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Alan O. Freeman, MBA, FACHE
President and Chief Executive Officer

Report A-07-11-05021

Grace Hill Health Centers, Inc
Response to OIG draft report for the Period June 29, 2009 through June 28, 2011
Grant number C81CS413988 CIP grant

Response:

Grace Hill Health Centers, Inc. agrees with the recommendation. An invoice from the architectural firm (that was providing services for both a property not covered by the ARRA grant as well as the properties covered by the ARRA grant) was improperly coded to the ARRA grant and the funds subsequently downloaded on September 10, 2009. After preparing a second reconciliation of grant expenditures for year-end closing purposes, the error was noted and reversed from grant-related expenditures and corrected through a download requested on February 25, 2010 for \$78,952. This download included net spending in excess of the error for the months of December 2009 and January 2010. Interest earnings from the date of the download in September 2009 until the date when the net spending on grant related activities exceeded the error were minimal; the federal funds rate during that time ranged between 0.0 and 0.25%.

To ensure such an error does not recur, communications related to allowable grant expenditures are now provided to the entire accounting staff rather than to supervisory personnel only. In addition, a second approval for coding purposes is required on all invoices in excess of \$5,000.

Respectfully submitted,
Janet Voss, CPA
Vice President and CFO
Grace Hill Health Centers, Inc



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



DEPARTMENT OF HEALTH & HUMAN SERVICES

Health Resources and Services
Administration

Rockville, MD 20857

AUG 8 2012

TO: Inspector General

FROM: Administrator

SUBJECT: OIG Draft Report: "Allowability of Recovery Act Costs Claimed by Grace Hill Neighborhood Health Centers, Inc., for the Period June 29, 2009, Through June 28, 2011" (A-07-11-05021)

Attached is the Health Resources and Services Administration's (HRSA) response to the OIG's draft report, "Allowability of Recovery Act Costs Claimed by Grace Hill Neighborhood Health Centers, Inc., for the Period June 29, 2009, Through June 28, 2011" (A-07-11-05021). 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 that reads "Mary K. Wakefield".

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

Attachment

**Health Resources and Services Administration's Comments on the OIG Draft Report –
“Allowability of Recovery Act Costs Claimed by Grace Hill Neighborhood Health Centers,
Inc., for the Period June 29, 2009, Through June 28, 2011” (A-07-11-05021)**

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 recommendation is as follows:

OIG Recommendation to HRSA:

We recommend that HRSA ensure that Grace Hill establishes adequate controls to ensure that the timing and amount of cash advances are as close as is administratively feasible to the timing of the actual disbursements for direct program or project costs.

HRSA Response:

HRSA concurs with the OIG recommendation and as the grantee's response indicates, corrective actions have been taken to ensure that the accounting error does not reoccur. HRSA will assure that these corrective actions are adhered to by the grantee.