



DEPARTMENT OF HEALTH AND HUMAN SERVICES

OFFICE OF INSPECTOR GENERAL

WASHINGTON, DC 20201



August 13, 2012

TO: Mary Wakefield, Ph.D., R.N.
Administrator
Health Resources and Services Administration

FROM: /Kay L. Daly/
Assistant Inspector General for Audit Services

SUBJECT: North Shore Community Health, Inc., Claimed Unallowable Costs Against
Recovery Act Grants (A-01-11-01502)

Attached, for your information, is an advance copy of our final report on costs claimed by North Shore Community Health, Inc. (North Shore), under the American Recovery and Reinvestment Act of 2009. We will issue this report to North Shore within 5 business days.

If you have any questions or comments about this report, please do not hesitate to contact me at (202) 619-1157 or through email at Kay.Daly@oig.hhs.gov, or your staff may contact Michael J. Armstrong, Regional Inspector General for Audit Services, Region I, at (617) 565-2689 or through email at Michael.Armstrong@oig.hhs.gov. Please refer to report number A-01-11-01502.

Attachment

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**NORTH SHORE COMMUNITY HEALTH,
INC., CLAIMED UNALLOWABLE COSTS
AGAINST RECOVERY ACT GRANTS**

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



Kay L. Daly
Assistant Inspector General

August 2012
A-01-11-01502

Office of Inspector General

<http://oig.hhs.gov>

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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.



DEPARTMENT OF HEALTH AND HUMAN SERVICES

OFFICE OF INSPECTOR GENERAL



OFFICE OF AUDIT SERVICES, REGION I
JFK FEDERAL BUILDING
15 NEW SUDBURY STREET, ROOM 2425
BOSTON, MA 02203

August 16, 2012

Report Number: A-01-11-01502

Ms. Margaret A. Brennan
Chief Executive Officer
North Shore Community Health, Inc.
27 Congress Street, Suite 103
Salem, MA 01970

Dear Ms. Brennan:

Enclosed is the U.S. Department of Health and Human Services (HHS), Office of Inspector General (OIG), final report entitled *North Shore Community Health, Inc., Claimed Unallowable Costs Against Recovery Act Grants*. We will forward a copy of this report to the HHS action official noted on the following page for review and any action deemed necessary.

The HHS action official will make final determination as to actions taken on all matters reported. We request that you respond to this official within 30 days from the date of this letter. Your response should present any comments or additional information that you believe may have a bearing on the final determination.

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. Accordingly, this report will be posted at <http://oig.hhs.gov>.

If you have any questions or comments about this report, please do not hesitate to call me, or contact George Nedder, Audit Manager, at (617) 565-3463 or through email at George.Nedder@oig.hhs.gov. Please refer to report number A-01-11-01502 in all correspondence.

Sincerely,

/Michael J. Armstrong/
Regional Inspector General
for Audit Services

Enclosure

Direct Reply to HHS Action Official:

Ms. Sandy Seaton
Health Resources and Services Administration
Room 13C-24
Parklawn Building
5600 Fishers Lane
Rockville, MD 20857

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.

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 to serve more patients, stimulate new jobs, and meet 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 New Access Point, Capital Improvement Program, and Increased Demand for Services grants.

North Shore Community Health, Inc.

North Shore Community Health, Inc. (North Shore), is a nonprofit agency, located in the North Shore region of Massachusetts, that provides medical and dental services to residents regardless of their ability to pay. In 2010, North Shore provided primary care services to 11,711 people at 4 service sites. For the period July 2008 through June 2011, North Shore received approximately \$23 million in revenue from all funding sources, including three HRSA-awarded Recovery Act grants totaling \$2,049,525.

Objective

Our objective was to determine whether costs claimed by North Shore were allowable under the terms of the grants and applicable Federal regulations.

SUMMARY OF FINDING

We could not determine whether \$2,049,525 in Recovery Act grant costs claimed by North Shore was allowable under the terms of the grants and applicable Federal regulations. North Shore did not track and account for Recovery Act expenditures separately from other (Federal and non-Federal) operating expenses; therefore, it could not demonstrate that it spent Recovery Act grant funds for allowable costs.

This deficiency occurred because North Shore did not (1) maintain a financial management system that provided for accurate, current, and complete disclosure of the financial results of its Recovery Act grants and (2) separately track and account for Recovery Act funds.

RECOMMENDATIONS

We recommend that HRSA:

- require North Shore to refund \$2,049,525 to the Federal Government or work with North Shore to determine whether any of the costs that it claimed against Recovery Act grants were allowable and
- ensure that North Shore (1) develops a financial system that provides for the accurate, current, and complete disclosure of the financial results of each HHS-sponsored project or program and (2) tracks and accounts for each grant's expenditures separately from other operating expenditures.

NORTH SHORE COMMUNITY HEALTH, INC., COMMENTS

In written comments on our draft report, North Shore stated that it adjusted its internal financial reporting process to be in compliance with Federal requirements. North Shore's comments are included in their entirety as Appendix A.

HEALTH RESOURCES AND SERVICES ADMINISTRATION COMMENTS

In written comments on our draft report, HRSA concurred with our findings. HRSA's comments are included 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.

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. Health centers funded by HRSA are community-based and patient-directed organizations meeting the definition of “health center” under 42 U.S.C. § 254b(a).

American Recovery and Reinvestment Act 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 to serve more patients, stimulate new jobs, and meet 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 New Access Point (NAP), Capital Improvement Program (CIP), and Increased Demand for Services (IDS) grants.

North Shore Community Health, Inc.

North Shore Community Health, Inc. (North Shore), is a nonprofit agency, located in the North Shore region of Massachusetts, that provides medical and dental services to residents regardless of their ability to pay. In 2010, North Shore provided primary care services to 11,711 people at 4 service sites.

For the period July 2008 through June 2011, North Shore received approximately \$23 million in revenue from all funding sources, including three HRSA-awarded Recovery Act grants totaling \$2,049,525:

- a NAP grant of \$1,300,000, awarded in February 2009, for a new site in Gloucester, Massachusetts, where patients receive medical and dental services;

- a CIP grant of \$551,910, awarded in June 2009, to construct five additional patient rooms at an existing site in Peabody, Massachusetts; and
- an IDS grant of \$197,615, awarded March 2009, to increase access and reduce barriers to health care within North Shore's service area.

Requirements for Federal Grantees

HRSA Community Health Center grantees must comply with the regulations at 42 CFR part 51c. Nonprofit organizations that receive HRSA funds must also comply with the administrative requirements at 45 CFR part 74 and the Federal cost principles found at 2 CFR part 230 (Office of Management and Budget (OMB) Circular A-122) and made applicable by 45 CFR § 74.27(a). In a grant award's terms and conditions, an HHS awarding agency may include additional requirements that it considers necessary to attain an award's objectives.

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

Our objective was to determine whether costs claimed by North Shore were allowable under the terms of the grants and applicable Federal regulations.

Scope

Our review covered \$2,049,525 that North Shore claimed against its Recovery Act grants for the period February 2009 through June 2011. We performed this review in response to a request from HRSA. We did not perform an overall assessment of North Shore's internal control structure. Rather, we reviewed only the internal controls that pertained directly to our objective.

We performed fieldwork at North Shore's office in Salem, Massachusetts, from September through October 2011.

Methodology

To accomplish our objective, we:

- reviewed relevant Federal laws, regulations, and guidance;
- reviewed North Shore's Recovery Act grant application packages and HRSA's Notices of Grant Award;
- reviewed North Shore's OMB Circular A-133 Audited Consolidated Financial Report for fiscal years 2009, 2010, and 2011;
- interviewed North Shore management to gain an understanding of its accounting systems, internal controls, and implementation of Recovery Act grant awards;

- reviewed North Shore’s policies and procedures for financial management;
- compared total expenditures to funds drawn from Recovery Act grants;
- traced the transactions from North Shore’s general ledgers to supporting source documents, which included third-party invoices and checks;
- selected and reviewed 39 transactions totaling \$230,129 from North Shore’s operating account check register to determine whether North Shore had incurred any costs that would be unallowable for Federal reimbursement;
- reviewed labor distribution reports and timesheets for the Gloucester site; and
- discussed the results of our audit with North Shore 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.

FINDING AND RECOMMENDATIONS

We could not determine whether \$2,049,525 in Recovery Act grant costs claimed by North Shore was allowable under the terms of the grants and applicable Federal regulations. North Shore did not track and account for Recovery Act expenditures separately from other (Federal and non-Federal) operating expenses; therefore, it could not demonstrate that it spent Recovery Act grant funds for allowable costs.

This deficiency occurred because North Shore did not (1) maintain a financial management system that provided for accurate, current, and complete disclosure of the financial results of its Recovery Act grants and (2) separately track and account for Recovery Act funds.

GRANT FUNDS NOT SEPARATELY ACCOUNTED FOR

Grantee financial management systems must provide for the accurate, current, and complete reporting of grant-related financial data, pursuant to 45 CFR § 74.21(b)(1). 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)), and grantee accounting records must be supported by source documentation (45 CFR § 74.21(b)(7)). The Community Health Services regulations (42 CFR § 51c.112(a)) also require that all grant payments be accounted for separately from all other funds, including funds derived from other grant awards. Pursuant to paragraph 7 of the Program Terms in North Shore’s notices of Recovery Act grant awards, Recovery Act funds must be tracked separately from other Federal grant funds.

We could not determine whether \$2,049,525 in Recovery Act grant costs claimed by North Shore was allowable under the terms of the grants and applicable Federal regulations. North Shore's accounting system did not provide accurate, current, and complete disclosure of the financial results of its Recovery Act grants. Specifically, North Shore did not segregate Recovery Act expenditures from other operating expenditures. Although we could not determine whether North Shore charged the costs that we reviewed to the Recovery Act grants, we found that North Shore incurred costs that would not have been allowable if they had been charged to the Recovery Act grants. Of the 39 transactions totaling \$230,129 that we reviewed, we found that 19 transactions totaling \$21,980 would not have been allowable under the terms and conditions of North Shore's Recovery Act grants. Because it did not track and account for Recovery Act expenditures separately from other operating expenditures, North Shore was not able to demonstrate that it spent specific Recovery Act grant funds for allowable costs.

RECOMMENDATIONS

We recommend that HRSA:

- require North Shore to refund \$2,049,525 to the Federal Government or work with North Shore to determine whether any of the costs that it claimed against Recovery Act grants were allowable and
- ensure that North Shore (1) develops a financial system that provides for the accurate, current, and complete disclosure of the financial results of each HHS-sponsored project or program and (2) tracks and accounts for each grant's expenditures separately from other operating expenditures.

NORTH SHORE COMMUNITY HEALTH, INC., COMMENTS

In written comments on our draft report, North Shore stated that it adjusted its internal financial reporting process to be in compliance with Federal requirements. North Shore's comments are included in their entirety as Appendix A.

HEALTH RESOURCES AND SERVICES ADMINISTRATION COMMENTS

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

APPENDIXES



June 26, 2012

Michael J. Armstrong
 Regional Inspector General for Audit Services
 DHHS/Office of Inspector General
 Office of Audit Services, Region I
 JFK Federal Building
 15 New Sudbury Street, Room 2425
 Boston, MA 02203

Report #A-01-11-01502

Dear Mr. Armstrong:

We have reviewed the Office of Inspector General (OIG) draft report entitled “North Shore Community Health, Inc. Claimed Unallowable Costs Against Recovery Act Grants.” In response, NSCHI wants to make clear that the goals and purposes of the ARRA funding were met including:

- As a result of \$1,300,000 in New Access Point funding, NSCHI increased access to comprehensive primary care and provided services at the new Gloucester Family Health Center for 2,280 residents of Gloucester and the surrounding communities.
- As a result of \$197,615 in Increased Demand for Services funding, NSCHI provided community-based dental care at Gloucester Family Health Center to 2,696 residents of Gloucester and the surrounding communities.
- As a result of \$551,910 in CIP funding, NSCHI expanded the services at Peabody Family Health Center to include dental care and improved access to community based dental services for residents of Peabody and the surrounding communities.

All of these activities increased access to care for uninsured and underinsured patients in our service area and allowed NSCHI to further the objectives of the Section 330 program.

Since the ARRA funding was also intended to create and/or retain jobs, the following represents the economic impact of NSCHI's ARRA funding:

- NSCHI's project supported nine (9) construction jobs.
- NSCHI hired and retained five (5) full-time employees (FTEs)—a Dentist, a medical provider (MD), a Medical Assistant, a Referral Coordinator and a Medical Records Assistant.

Dedicated to Community Health

Gloucester Family Health Center
 302 Washington Street
 Gloucester, MA 01930-4836
 Tel. 978-282-8899
 Voice/TTY: 978-236-0280
 FAX: 978-282-5599

Peabody Family Health Center
 89 Foster Street
 Peabody, MA 01960-5933
 Tel. 978-532-4903
 Voice/TTY: 978-532-4914
 FAX: 978-532-4995

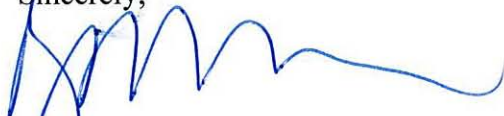
Salem Family Health Center
 47 Congress Street
 Salem, MA 01970-5507
 Tel. 978-744-8388
 Voice/TTY: 978-744-1847
 FAX: 978-740-0674

School Base Health Center
 77 Willson Street
 Salem, MA 01970-2898
 Tel. 978-740-1220
 Voice/TTY: 978-740-1220
 FAX: 978-740-1217

North Shore Community Health, Inc. made adjustments to its internal financial reporting processes last fall and feels confident that we are fully in compliance with all federal funding reporting requirements. We welcome any additional support or technical assistance from HRSA.

Please let me know if you have questions or need additional information. I can be reached at (978) 825-1109 or via email at mbrennan@nschi.org.

Sincerely,



Margaret A. Brennan, MPH
CEO



DEPARTMENT OF HEALTH & HUMAN SERVICES

Health Resources and Services
Administration

Rockville, MD 20857

JUL 24 2012

TO: Inspector General

FROM: Administrator

SUBJECT: OIG Draft Report: "North Shore Community Health, Inc., Claimed Unallowable Costs Against Recovery Act Grants" (A-01-11-01502)

Attached is the Health Resources and Services Administration's (HRSA) response to the OIG's draft report, "North Shore Community Health, Inc., Claimed Unallowable Costs Against Recovery Act Grants" (A-01-11-01502). 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 –
“North Shore Community Health, Inc., Claimed Unallowable Costs
Against Recovery Act Grants ” (A-01-11-01502)**

The Health Resources and Services Administration (HRSA) appreciates the opportunity to respond to the above draft report. HRSA's response to the Office of Inspector General (OIG) draft recommendations are as follows:

OIG Recommendation to HRSA:

We recommend that HRSA require North Shore to refund \$2,049,525 to the Federal Government or work with North Shore to determine whether any of the costs that it claimed against Recovery Act grants were allowable.

HRSA Response:

HRSA concurs with the OIG recommendation and will work with the grantee to determine which Recovery Act grant costs are allowable.

OIG Recommendation to HRSA:

We recommend that HRSA ensure that North Shore (1) develops a financial system that provides for the accurate, current, and complete disclosure of the financial results of each HHS-sponsored project or program and (2) tracks and accounts for each grant's expenditures separately from other operating expenditures.

HRSA Response:

HRSA concurs with the OIG recommendation and will assist the grantee in establishing a financial system to improve its tracking of HRSA grants.