DEPARTMENT OF HEALTH & HUMAN SERVICES

OFFICE OF INSPECTOR GENERAL

Washington, D.C. 20201

June 8, 2010

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

FROM: /Lori S. Pilcher/
Assistant Inspector General for Grants, Internal Activities,
and Information Technology Audits

SUBJECT: Results of Limited Scope Review at Generations Family Health Center, Inc.
(A-01-10-01501)

The attached final report provides the results of our review of Generations Family Health Center, Inc.

Section 8L of the Inspector General Act, 5 U.S.C. App., requires that the Office of Inspector General (OIG) post its publicly available reports on the OIG Web site. Accordingly, this report will be posted at http://oig.hhs.gov.

Please send us your final management decision, including any action plan, as appropriate, within 60 days. If you have any questions or comments about this report, please do not hesitate to contact me at (202) 619-1175 or through email at Lori.Pilcher@oig.hhs.gov. Please refer to report number A-01-10-01501 in all correspondence.

Attachment

cc:
Patricia Reese
Director, HRSA
Office of Federal Assistance Management/Division of Financial Integrity

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

RESULTS OF LIMITED SCOPE REVIEW AT GENERATIONS FAMILY HEALTH CENTER, INC.

Daniel R. Levinson
Inspector General

June 2010
A-01-10-01501

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 (PHS Act), codified at 42 U.S.C. § 254(b). Pursuant to 42 U.S.C. § 254(b), the Health Center Program is a national program designed to provide comprehensive primary health care services to medically underserved populations through planning and operating grants to health centers. Within the U.S. Department of Health & Human Services, the Health Resources and Services Administration (HRSA) administers the Health Center 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, including $2 billion to expand the Health Center Program to serve more patients, stimulate new jobs, and meet the significant increase in demand for primary health care services among the Nation's uninsured and underserved populations.

Generations Family Health Center, Inc. (Generations), is a private, not-for-profit, regional Federally Qualified Health Center that has served eastern Connecticut since 1984. Generations currently provides a full continuum of primary health care, oral health care, and case management services to a medically underserved population including at-risk families, homeless people, and migrant populations through sites in Willimantic, Norwich, and Killingly.

Generations is funded primarily through HRSA grants, Medicaid, Medicare, State grants, donations, and insurance payments. During Federal fiscal year 2009, HRSA awarded Generations three separate 2-year Recovery Act grants totaling $2,154,474.

OBJECTIVES

Our objective was to assess Generations' financial viability, capacity to manage and account for Federal funds, and capability of operating a community health center program in accordance with Federal regulations.

SUMMARY OF FINDINGS

Based on our assessment, Generations is currently financially viable. We found that Generations' financial management system was able to adequately manage and account for Federal funds with two exceptions. Specifically, it did not have adequate policies and procedures to (1) ensure that it maintained all Federal funds in insured accounts and (2) protect whistleblowers from punishment and discrimination. We also found that Generations has the capability to operate a community health center in accordance with Federal regulations.

RECOMMENDATION

We recommend that HRSA consider the information presented in this report in assessing Generations' capability as a recipient of HRSA funds.

GENERATIONS' COMMENTS

In written comments on our draft report, Generations stated that it will clarify its written policy to ensure that Federal funds are in insured accounts and that it will develop a policy to protect whistleblowers. Generations' comments are included as the Appendix.

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INTRODUCTION

BACKGROUND

Health Center Program

The Health Centers Consolidation Act of 1996 (P.L. No. 104–299) consolidated the Health Center Program under Section 330 of the Public Health Service Act (PHS Act), codified at 42 U.S.C. § 254(b). Pursuant to 42 U.S.C. § 254(b), the Health Center Program is a national program designed to provide comprehensive primary health care services to medically underserved populations through planning and operating grants to health centers. Within the U.S. Department of Health & Human Services, the Health Resources and Services Administration (HRSA) administers the Health Center Program.

The Health Center Program provides grants to nonprofit private or public entities that serve designated medically underserved populations, including migrant and seasonal farm workers, the homeless, and residents of public housing. Health centers funded by HRSA are community-based, patient-directed organizations that meet the definition of "health center" under 42 U.S.C. § 254(b).

Recovery Act Funds

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, including $2 billion to expand the Health Center Program to serve more patients, stimulate new jobs, and meet the significant increase in demand for primary health care services among the Nation's uninsured and underserved populations. HRSA made four types of grants available to health centers to provide for new access points, increased demand for services, facilities investment programs, and capital improvement programs. Grants were provided to new and existing health centers, and a center could receive more than one type of grant.

Requirements for Federal Grantees

Pursuant to 45 CFR § 74.21, grantees are required to maintain financial management systems that contain written procedures for determining the reasonableness, allocability, and allowability of costs. Grantees must maintain accounting records that are supported by source documentation and must maintain financial systems that provide for accurate and complete reporting of grant-related financial data. Grantees are also required to compare outlays with budget amounts for each award and may use grant funds only for authorized purposes. In addition, Federal regulations specify the size, composition, and responsibilities of a Grantee's board of directors.

The Recovery Act and Office of Management and Budget (OMB) guidance M-09-15 set forth further requirements for transparency and accountability.

Generations Family Health Center, Inc.

Generations Family Health Center, Inc. (Generations), is a private, not-for-profit, Federally Qualified Health Center that has served eastern Connecticut since 1984. Generations currently provides a full continuum of primary health care, dental care, and case management services to a medically underserved population including at-risk families, homeless people, and migrant workers at sites in Willimantic, Norwich, and Killingly, Connecticut.

Generations is funded primarily through HRSA grants, Medicaid, Medicare, State grants, donations, and insurance payments. During Federal fiscal year (FY) 2009, HRSA awarded Generations three separate 2-year Recovery Act grants totaling $2,154,474. The awards include $1,125,000 for new access points, $261,264 for increased demand for services, and $768,210 for capital improvement programs.

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

Our objective was to assess Generations' financial viability, capacity to manage and account for Federal funds, and capability of operating a community health center program in accordance with Federal regulations.

Scope

We reviewed Generations' financial statements for FYs 2006 through 2009 and its accounting and personnel policies and procedures for FY 2009. This limited-scope review is part of a series of reviews planned by the Office of Inspector General to provide oversight of funds provided by the Recovery Act. Therefore, we did not perform an overall assessment of Generations' internal control structure.

We performed our fieldwork at Generations' administrative office in Willimantic, Connecticut, during December 2009.

Methodology

To accomplish our objectives, we;

- reviewed relevant Federal laws, regulations, and guidance;

- reviewed Generations' HRSA grant application packages and supporting documentation;

- reviewed Generations' fiscal policies and procedures related to accounting documentation and preparation of financial reports;

- reviewed Generations' administrative procedures related to personnel, record-keeping, conflict resolution, and nonfinancial matters;

- reviewed Generations' procedures in place to address the Recovery Act reporting requirements;

- performed liquidity and stability analyses of Generations' finances for FY 2008 and 2009 to determine whether Generations was financially viable;

- reviewed Generations' FY 2008 financial recovery plan and its forecasted financial statements for FYs 2010 through 2014;

- reviewed Generations' audited financial statements and audits conducted pursuant to OMB Circular A-133 for FYs 2006 through 2009;

- interviewed Generations' personnel to gain an understanding of Generations' operations;

- reviewed minutes from Generations' Board of Directors' meetings; and

- discussed findings with Generations' 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 RECOMMENDATION

Based on our assessment, Generations is currently financially viable. We found that Generations' financial management system was able to adequately manage and account for Federal funds with two exceptions. Specifically, it did not have adequate policies and procedures to (1) ensure that it maintained all Federal funds in insured accounts and (2) protect whistleblowers from punishment and discrimination. We also found that Generations has the capability to operate a community health center in accordance with Federal regulations.

FINANCIAL VIABILITY

Federal Regulations

Pursuant to 45 CFR § 74.14, grantees should be financially viable. Specifically, this regulation states that the awarding agency may impose additional requirements as needed if an applicant or recipient has a history of poor performance or is not financially stable.

Generations' Financial Viability

We determined that Generations is financially viable by analyzing its short-term liquidity, defined by the ratio of its assets to its liabilities, and its long-term stability, defined by its reliance on debt for asset formation.

Short-Term Liquidity

Generations has improved its short-term liquidity since instituting its recovery plan in 2008. Specifically:

- Generations' current assets-to-liabilities ratio (current assets divided by current liabilities) increased from 0.53 to 1.00 between the end of FY 2008 and the end of FY 2009. Generally, for an organization to be considered fiscally sound, its current assets should be valued higher than its current liabilities.

- Generations' working capital (current assets minus current liabilities) increased between the end of FY 2008 and the end of FY 2009, from a negative $792,358 to a positive $4,411. Positive working capital is a common measure of an organization's liquidity, efficiency, and overall health.

Generations attributes its improved liquidity between FYs 2008 and 2009 to its financial recovery plan. This plan included:

- reducing its workforce by eliminating temporary staff and not filling vacancies,

- eliminating 403b employee contributions,

- changing its workers compensation carrier,

- renegotiating or reducing contractual services,

- renegotiating State reimbursement rates, and

- hiring additional providers to increase the number of patient visits.

Long-Term Stability

Generations' total debt (liabilities) for FY 2009 was $1,955,072 and its total assets were $3,797,273. Thus, approximately 51 percent of Generations' assets were financed through debt, indicating that the grantee has long-term stability. In general, the lower an organization's reliance on debt for assets formation, the greater the organization's long-term stability because excessive debt can lead to heavy interest and principal repayment burden.

Generations plans to maintain its long-term stability by constructing two new facilities to address the increased demand for medical, dental, and behavioral health services. Overall, Generations forecasts that its average annual increase in net operating income through 2014 will be $811,514. Even though Generations will incur $12.6 million in additional costs to construct these facilities, its debt ratio will not change significantly because:

- $3.9 of the $12.6 million (31 percent) in construction costs are funded through State and Federal grants and

- $1.7 of the $12.6 million (13 percent) in construction costs are funded through donations, reserves, and New Market Tax Credits.

Thus only $7 million of the $12.6 million in additional costs will be funded through debt.

Patient revenue is expected to increase by $6.1 million through the end of 2014, which will contribute to an overall increase in cash and investments of $4.6 million.

FINANCIAL MANAGEMENT SYSTEM

Federal Regulations

Pursuant to 45 CFR § 74.21(b)(3), recipients shall adequately safeguard all funds, property, and other assets. Furthermore, 45 CFR § 74.22(i)(2) states that advances of Federal funds shall be deposited and maintained in insured accounts whenever possible.

Pursuant to Section 1553(a) of the Recovery Act (Whistleblowers Policy), an employee of any non-Federal employer receiving covered funds may not be discharged, demoted, or otherwise discriminated against as a reprisal for disclosing information that the employee reasonably believes is evidence of (1) gross mismanagement of an agency contract or grant relating to covered funds; (2) a gross waste of covered funds; (3) a substantial and specific danger to public health or safety related to the implementation or use of covered funds; (4) an abuse of authority related to the implementation or use of covered funds; or (5) a violation of law, rule, or regulation related to an agency contract (including the competition for or negotiation of a contract) or grant, awarded or issued relating to covered funds.

Generations' Financial Management System

Generations' financial management system was able to adequately manage and account for Federal funds with the following two exceptions:

Policies and Procedures for Ensuring That Federal Funds Are in Insured Accounts

Generations does not have policies and procedures for ensuring that its deposits are in an FDIC-insured account. FDIC insurance covers all deposit accounts, including checking and savings accounts, money market deposit accounts, and certificates of deposit up to $250,000 per depositor. Generations maintains some of its funds in a financial institution's money market mutual fund account that is not FDIC insured. The average daily fund balance in this account between July and October 2009 was $664,831. As a result, Generations' ability to meet financial obligations could be hindered if the financial institution becomes insolvent.

Policies and Procedures for Protecting Whistleblowers

Generations does not have a process for communicating to officers, employees, and others the rights and remedies provided by the Recovery Act for reporting suspected instances of wrongdoing by the company or employees of the company. Because of this lack of whistleblower protection policies and procedures, employees are not protected from being discharged, demoted, or otherwise discriminated against as a reprisal for disclosing information on fraud, waste, or abuse of Federal funds. As a result, Generations is not in compliance with the grant terms and conditions of the Recovery Act's whistleblower protection requirements.

CAPACITY TO OPERATE A COMMUNITY HEALTH CENTER

Federal Regulations

Pursuant to the PHS Act, § 330(k)(3)(J), the center will periodically review the size and boundaries of its catchment area to ensure that the services provided through the center are available and accessible to the residents of the area and that residents do not face barriers resulting from the area's physical characteristics, its residential patterns, its economic and social grouping, and available transportation.

Pursuant to 42 CFR § 51c.304, a grantee's governing board shall consist of at least 9 but not more than 25 members, and the majority of the board shall be individuals who are or will be served by the center. The governing board holds monthly meetings to oversee the operations of the center through activities such as approving grant applications and budgets, evaluating the health center's activities, and establishing general policies and procedures.

Generations' Capacity to Operate a Community Health Center

Generally, we found Generations to be in compliance with Federal regulations for operating a community health center. Generations performed a needs assessment to address the economic and social group changes due to the increase in homelessness and unemployment in their service area. Furthermore, Generations' had nine members on its board of directors, and the majority of the members (seven) received services from the health center. Based on the board of directors' minutes, the board met on a monthly basis and participated in approving grant applications and budgets, evaluating the health center's service utilization patterns and productivity, and approving its policies and procedures.

RECOMMENDATION

We recommend that HRSA consider the information presented in this report in assessing Generations' capability as a recipient of HRSA funds.

GENERATIONS' COMMENTS

In written comments on our draft report, Generations stated that it will clarify its written policy to ensure that Federal funds are in insured accounts and that it will develop a policy to protect whistleblowers. Generations' comments are included as the Appendix.

APPENDIX

GENERATIONS
FAMILY HEALTH CENTER

April 9, 2010

Michael J. Armstrong
Regional Inspector General for Audit Services
Department of Health and Human Services
Office of the Inspector General
JFK Federal Building, Room 2425
Boston, MA 02203

RE: Report #: A-01-10-01501

Dear Mr. Armstrong:

Thank you for your report entitled *Results of Limited Scope Review at Generations Family Health Center, Inc.* We welcome this opportunity to provide written comments and clarification as follows:

Response to Findings:

1. *Policies and Procedures for Ensuring That Federal Funds are in Insured Accounts:*
   P5. "Generations does not have policies and procedures for ensuring that its deposits are in an FDIC insured account" and "Generations maintains some of its funds in a financial institution's money market mutual fund account that is not FDIC insured:"

   Response: With the exception of the agency's sweep account, Generations' practice has been to deposit funds in interest-bearing, FDIC insured accounts. Generations will clarify its written policy to reflect the practice. Funds in the non-FDIC account will be transferred into a compliant account(s) by April 30, 2010.

2. *Policies and Procedures for Protecting Whistleblowers:*
   P6. "Generations does not have a process for communicating to officers, employees and others the rights and remedies provided by the Recovery Act for reporting suspected instances of wrongdoing…."

   Response: While Generations maintains several policies (conflict of interest, HIPAA, etc.) to protect officers and employees from retaliation for reporting suspected violations, the health center did not specifically have a policy to comply with ARRA mandates. The policy is in development and will be brought before the Board of Directors by June 30, 2010. The new policy will include provisions regarding the prohibition of reprisals to employees who make disclosures on concerns with gross mismanagement of funds, waste of covered funds, safety or public health concerns involved in implementation of covered funds, etc.

Clarifications:

1. Short Term Liquidity: P4. "Generations attributes improved liquidity...to...hiring additional providers **add: "and improving overall productivity and efficiencies"** to increase the number of patient visits ,"
2. Long-Term Stability: p5. "Even though Generations will incur $12.6 million in additional debt to construct these facilities..." Clarification, the debt service for the project is only $7 million, the remainder of funds have been leveraged using other grants , donations and New Market Tax Credits.

We appreciate the comprehensive review performed by your office to support and validate our health center's financial viability and ARRA grantee recipient capability. Please contact me with any questions at 860.450.0585 x600 or ashaw@genhealth.org

Sincerely,

Arvind Shaw

Arvind Shaw
Chief Executive Officer