DEPARTMENT OF HEALTH & HUMAN SERVICES **Office of Inspector General**

Washington, D.C. 20201

May 11, 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 of Loudoun Community Health Center (A-03-09-00370)

The attached final report provides the results of our limited scope review of Loudoun Community Health Center. This review is part of an ongoing series of reviews performed by the Office of Inspector General (OIG) to provide oversight of funds provided by the American Recovery and Reinvestment Act of 2009, P.L. No. 111-5 (Recovery Act).

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 call me at (202) 619-1175 or through email at Lori.Pilcher@oig.hhs.gov. Please refer to report number A-03-09-00370 in all correspondence.

Attachment

Department of Health & Human Services

OFFICE OF INSPECTOR GENERAL

RESULTS OF LIMITED SCOPE REVIEW OF LOUDOUN COMMUNITY HEALTH CENTER

Daniel R. Levinson
Inspector General

May 2010
A-03-09-00370

Office of Inspector General

http://oig.hhs.gov

The mission of the Office of Inspector General (OIG), as mandated by Public Law 95-452, as amended, is to protect the integrity of the Department of Health & Human Services (HHS) programs, as well as the health and welfare of beneficiaries served by those programs. This statutory mission is carried out through a nationwide network of audits, investigations, and inspections conducted by the following operating components:

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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.

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. The HRSA health centers are community-based and patient-directed organizations that serve populations with limited access to health care.

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.

The Loudoun Community Health Center (Loudoun) is an independent nonprofit primary health care provider that opened in May 2007 to address the needs of the low-income residents of Loudoun County, Virginia. During 2008, Loudoun provided health services to approximately 3,700 patients, of which 64 percent were uninsured. In March 2009, Loudoun received its first HRSA grant.

Loudoun is funded primarily through HRSA grants; Medicare, Medicaid, and insurance payments; local grants; and donations. During Federal fiscal year 2009, HRSA awarded three separate 2-year Recovery Act grants totaling $1,650,000 to Loudoun.

OBJECTIVE

Our objective was to assess Loudoun's financial viability, capacity to manage and account for Federal funds, and capability to operate a community health center in accordance with Federal regulations.

SUMMARY OF FINDINGS

Based on our assessment, we believe Loudoun is financially viable and has the capacity to manage and account for Federal funds and to operate its health center in accordance with Federal regulations. However, we noted certain weaknesses related to the accounting system, segregation of duties, procurement practices, adequate safeguarding of assets, and a whistleblower process.

RECOMMENDATION

When monitoring the Recovery Act funds, we recommend that HRSA consider the information presented in this report in assessing Loudoun's ability to account for and manage Federal funds and to operate a community health center in accordance with Federal regulations.

LOUDOUN COMMUNITY HEALTH CENTER COMMENTS

In written comments on our draft report, Loudoun generally agreed with the findings and described actions that it had taken to address them. In response to our safeguarding of assets finding, Loudoun said it had accounts in three banks at this time and was not at risk of exceeding the Federal Deposit Insurance Corporation limits. Loudoun’s comments are included in their entirety as the Appendix.

TABLE OF CONTENTS

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 (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 (HHS), 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 and areas, and vulnerable populations composed 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. § 254(b).

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.

Loudoun Community Health Center

The Loudoun Community Health Center (Loudoun) is an independent nonprofit primary health care provider that opened in May 2007 to address the needs of the low-income residents of Loudoun County, Virginia. During 2008, Loudoun provided health services to approximately 3,700 patients, of which 64 percent were uninsured. In March 2009, Loudoun received its first HRSA grant.

Loudoun is funded primarily through HRSA grants; Medicare, Medicaid, and insurance payments; local grants; and donations. During Federal fiscal year (FY) 2009, HRSA awarded Loudoun three separate 2-year Recovery Act grants totaling $1,650,000. The awards included a new access point grant for $1,300,000, a capital improvement program grant for $250,000, and an increased demand for services grant for $100,000.

Requirements for Federal Grantees

Nonprofit organizations that receive HRSA funds must comply with Federal cost principles found at 2 CFR pt. 230, "Cost Principles for Non-profit Organizations" (formerly Office of Management and Budget (OMB) Circular A-122). In addition, 42 U.S.C. § 254(b) defines requirements for health centers under the Health Center Program.

The Standards for Financial Management Systems found at 45 CFR § 74.21, establish regulations for grantees to maintain financial management systems. Grantees' financial management 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)); must ensure that accounting records are supported by source documentation (§ 74.21(b)(7)); and must provide effective control over and accountability of all funds, property, and other assets so that recipients adequately safeguard all such assets and assure they are used solely for authorized purposes (§ 74.21(b)(3)). Grantees also must have written procedures for determining the reasonableness, allocability, and allowability of costs in accordance with the provisions of the applicable Federal cost principles and the terms and conditions of the award (§ 74.21(b)(6)).

In addition, grantees must establish written procurement procedures that include certain provisions as set forth in 45 CFR § 74.44. Federal regulations also require grantees to deposit and maintain advances of Federal funds in insured accounts whenever possible (45 CFR § 74.22(i)(2)).

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

Our objective was to assess Loudoun's financial viability, capacity to manage and account for Federal funds, and capability to operate a community health center in accordance with Federal regulations.

Scope

We conducted a limited review of Loudoun's financial viability, financial management system, and related policies and procedures. Therefore, we did not perform an overall assessment of Loudoun's internal control structure. Rather, we performed limited tests and other auditing procedures on Loudoun's financial management system to assess its ability to administer federally funded projects.

We performed our fieldwork at Loudoun's administrative office in Leesburg, Virginia, during September 2009.

Methodology

To accomplish our objective, we:

- reviewed relevant Federal laws, regulations, and guidance;
- obtained Loudoun's HRSA grant application packages and supporting documentation;
- interviewed Loudoun personnel to gain an understanding of its accounting systems and internal controls;

- reviewed Loudoun’s fiscal procedures related to accounting documentation and preparation of financial reports;
- reviewed Loudoun’s financial statements for FYs 2007 through 2009;
- performed ratio analyses of Loudoun’s financial statements;
- reviewed Loudoun’s independent audit for FY 2008;
- reviewed Loudoun’s by-laws;
- reviewed minutes from Loudoun’s Board of Director meetings; and
- reviewed Loudoun’s administrative procedures related to personnel, record-keeping, conflict resolution, and other non-financial matters.

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, we believe Loudoun is financially viable and has the capacity to manage and account for Federal funds and to operate its health center in accordance with Federal regulations. However, we noted weaknesses related to the accounting system, segregation of duties, procurement practices, adequate safeguarding of assets, and a whistleblower process.

ACCOUNTING SYSTEM

Pursuant to 45 CFR § 74.21, grantees must maintain financial systems that provide for accurate and complete reporting of grant-related financial data.

Loudoun’s accounting system did not include a process for closing the books after all yearend adjusting entries were made. As a result, accounts remained subject to change even after the financial statements were audited and any changes would have no audit trail. We identified this as an internal control weakness; however, we did not find any discrepancies between the 2008 ending and 2009 beginning balances. Loudoun officials told us that they plan to implement a new accounting system that will allow them to close the books.

SEGREGATION OF DUTIES

Pursuant to 45 CFR § 74.21(b)(3), grantees' financial management systems must provide effective control over and accountability of all funds, property, and other assets so that recipients can adequately safeguard all such assets and assure they are used solely for authorized purposes.

As of the latest unaudited financial statements (period ending August 31, 2009), a single contract accountant processed checks, prepared payroll, reconciled the bank accounts, and prepared the financial statements. Additionally, there was no secondary review of payroll by a Loudoun official.

PROCUREMENT PRACTICES

Pursuant to 45 CFR § 74.44, grantees are required to establish written procurement procedures, which require solicitations for goods and services to provide a clear and accurate description of the technical requirements for the material, product or service to be procured, requirements which the bidder/offeror must fulfill and all other factors to be used in evaluating bids or proposals, and the specific features of "brand name or equal" descriptions that bidders are required to meet when such items are included in the solicitation.

Loudoun's written procedures for procurement specified that purchase orders would be used to make purchases. However, Loudoun did not follow its procedures to use purchase orders when procuring goods. Loudoun officials told us that they have subsequently begun to use purchase orders consistently as required by Loudoun's policy and procedures.

ADEQUATE SAFEGUARDING OF ASSETS

Pursuant to 45 CFR § 74.21(b)(3), grantees must provide effective control over and accountability of all funds, property, and other assets to adequately safeguard all assets. In addition, pursuant to 45 CFR § 74.22(i)(2), grantees are required to deposit and maintain advances of Federal funds in insured accounts whenever possible. Federal Deposit Insurance Corporation (FDIC) policy states that deposits owned by a corporation, partnership, or unincorporated association are insured up to $250,000 at a single bank.

Loudoun's bank account balances have not exceeded $250,000; however, with the additional Recovery Act funding, the balances could go above the insured limit. Loudoun did not have effective internal controls over account balance limits to adequately safeguard deposits.

WHISTLEBLOWER PROCESS

Section 1553(a) of the Recovery Act prohibits reprisals against an employee of a organization awarded Recovery Act funds for disclosing to appropriate authorities any credible 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. Pursuant to section 1553(e) of the Recovery Act, any employer receiving covered funds shall post notice of the rights and remedies provided for the protection of employees under this section.

Loudoun did not have a process established and communicated to officers, employees, and others about the rights and remedies provided by the Recovery Act for reporting suspected instances of wrongdoing by the company or employees of the company.

RECOMMENDATION

When monitoring the Recovery Act funds, we recommend that HRSA consider the information presented in this report in assessing Loudoun's ability to account for and manage Federal funds and to operate a community health center in accordance with Federal regulations.

LOUDOUN COMMUNITY HEALTH CENTER COMMENTS

In written comments on our draft report, Loudoun generally agreed with the findings and described actions that it had taken to address them. In response to our safeguarding of assets finding, Loudoun said it had accounts in three banks at this time and was not at risk of exceeding the FDIC limits. Loudoun’s comments are included in their entirety as the Appendix.

OTHER MATTERS

HRSA requested that we provide information on innovative practices that we observed during our site visit at Loudoun.

- Loudoun was actively involved with State and National primary care and health center associations. In addition, we noted that Loudoun worked in partnership with two unaffiliated health centers in Virginia to discuss operational and performance improvements, including ways to achieve economies of scale.

- Loudoun was in the process of implementing innovative ideas to maximize its non-patient revenue from a wide variety of nongovernmental sources, including grants from private donors and foundations, contributions, community events, and new business development. Strategies included:

    - working with the local Chamber of Commerce to have businesses provide prepaid cards to employees to use for health services at Loudoun;

    - generating press coverage and good will by hosting community events, which it believes will result in increased contributions;

    - conducting a fundraising campaign by mail twice a year and utilizing an online donor tracking system; and

- conducting a multi-faceted fund development campaign, including sending press releases to current and potential donors, attending events offering networking opportunities, and researching and applying for new grants.

HRSA may want to consider these practices when compiling its list of Best Practices for Health Centers.

APPENDIX

APPENDIX: LOUDOUN COMMUNITY HEALTH CENTER COMMENTS

Loudoun
Community
HEALTH CENTER
Your Home for Quality Health Care

March 22, 2010

Dear Mr. Walsh,

The following are LCHC's comments regarding the Findings and Recommendations in the Draft Report, "Results of Limited Scope Review of Loudoun community Health Center." (Report Number A-03-09-00370).

Accounting System: We agree with the finding. We have just this month begun working on a new accounting system and expect to be totally converted from Quick Books to the new system by March 31, 2010.

Segregation of Duties: We agree with the findings and have implemented the following controls:
- Hired a Business Office Manager (August 3, 2009) who processes checks and prepares payroll.
- Contracted accountant reviews the bank reconciliation but does not prepare it.
- Contracted accountant prepares and reviews the month end financial statement, separate from the internal Business Office Manager.
- The CEO reviews payroll after the Business Office Manager has prepared it. The Business Office Manager submits payroll to ADP. The CEO also reviews payroll after it is received from ADP.

Procurement Practices: Although a Purchase Order Policy did exist and POs were being used, they were not being used consistently. LCHC has since emphasized the importance of following the policy with the Management Team and staff and are using the POs more consistently. LCHC is currently evaluating its policies and procedures including automation of the process in hopes of making it more efficient.

Adequate Safeguarding of Assets: LCHC has had accounts with three different banks since August of 2009 and at this time do not feel we are at risk of exceeding the $250,000 FDIC insurance limit.

Whistle-blower Process: A Whistle blower Policy was written prior to the Audit team leaving and approved by the Board of Directors at the September 2009 Board meeting and communicated to staff shortly after approval. The policy is in place.

I thank you for the opportunity to provide written comments. I will be sending you a hard copy of my response today.

Best Regards,
/Debra Dever, CEO/
Loudoun Community Health Center

224A Cornwall Street, NW | Leesburg, Virginia 20176
703-443-2000 | 703-443-2033 fax | www.LoudounCHC.org