



June 14, 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 Open Cities Health Center, Inc.
(A-05-10-00034)

The attached final report provides the results of our limited scope review at Open Cities Health Center, Inc. (Open Cities). In accordance with the Recovery Act, the Office of Inspector General (OIG) will provide oversight of covered funds to prevent fraud, waste and abuse.

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-05-10-00034 in all correspondence.

Attachment

Department of Health & Human Services

**OFFICE OF
INSPECTOR GENERAL**

**RESULTS OF LIMITED SCOPE
REVIEW AT OPEN CITIES
HEALTH CENTER, INC.**



Daniel R. Levinson
Inspector General

June 2010
A-05-10-00034

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:

Office of Audit Services

The Office of Audit Services (OAS) provides auditing services for HHS, either by conducting audits with its own audit resources or by overseeing audit work done by others. Audits examine the performance of HHS programs and/or its grantees and contractors in carrying out their respective responsibilities and are intended to provide independent assessments of HHS programs and operations. These assessments help reduce waste, abuse, and mismanagement and promote economy and efficiency throughout HHS.

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The Office of Evaluation and Inspections (OEI) conducts national evaluations to provide HHS, Congress, and the public with timely, useful, and reliable information on significant issues. These evaluations focus on preventing fraud, waste, or abuse and promoting economy, efficiency, and effectiveness of departmental programs. To promote impact, OEI reports also present practical recommendations for improving program operations.

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The Office of Investigations (OI) conducts criminal, civil, and administrative investigations of fraud and misconduct related to HHS programs, operations, and beneficiaries. With investigators working in all 50 States and the District of Columbia, OI utilizes its resources by actively coordinating with the Department of Justice and other Federal, State, and local law enforcement authorities. The investigative efforts of OI often lead to criminal convictions, administrative sanctions, and/or civil monetary penalties.

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The Office of Counsel to the Inspector General (OCIG) provides general legal services to OIG, rendering advice and opinions on HHS programs and operations and providing all legal support for OIG's internal operations. OCIG represents OIG in all civil and administrative fraud and abuse cases involving HHS programs, including False Claims Act, program exclusion, and civil monetary penalty cases. In connection with these cases, OCIG also negotiates and monitors corporate integrity agreements. OCIG renders advisory opinions, issues compliance program guidance, publishes fraud alerts, and provides other guidance to the health care industry concerning the anti-kickback statute and other OIG enforcement authorities.

Notices

THIS REPORT IS AVAILABLE TO THE PUBLIC

at <http://oig.hhs.gov>

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

Pursuant to P.L. 104-299, Health Centers Consolidation Act of 1996, health centers provide services to a population that is medically underserved. 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 for health centers over two years. 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 have received more than one type of grant.

The Open Cities Health Center, Inc. (Open Cities) located in St. Paul, Minnesota is one of the largest nonprofit community health centers in the Twin Cities' area and provides medical, dental, and mental health clinic services. Open Cities served over 17,000 clients from the Minneapolis-St. Paul area that made 56,000 visits to the clinic in 2004.

Open Cities is funded primarily through HRSA grants, Medicare, Medicaid, local grants, donations, and insurance payments. During fiscal year (FY) 2009, HRSA awarded two separate two-year Recovery Act grants totaling \$1,035,987 to Open Cities.

OBJECTIVE

Our objective was to assess Open Cities' 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, Open Cities is financially viable, but certain trends for net assets and debt may undermine the grantee's fiscal stability if not kept in check. Furthermore, Open Cities has the capacity to manage and account for Federal funds and the capacity to operate a community health center in accordance with Federal regulations. However, we noted weaknesses related to its fiscal status as well as a lack of written policies and procedures for accounting for property, Federal Deposit Insurance Corporation (FDIC) deposit limits, and Federal grant reporting.

RECOMMENDATION

In determining whether Open Cities is appropriately managing and accounting for the Recovery Act grant funding, we recommend that HRSA consider the information presented in this report in assessing Open Cities' ability to operate a Community Health Center in accordance with Federal regulations.

OPEN CITIES COMMENTS

In written comments on our draft report, Open Cities stated that cash flow has been a challenge for several years. To improve its financial viability the clinic has focused on improving operational efficiencies to control or reduce expenses, and cash flow is monitored closely by management and the Board of Directors. The clinic is beginning to receive partial payments from the Minnesota Department of Human Services for outstanding receivables estimated at over \$1 million. Open Cities also stated that it will be updating its policies and procedures to include language specific to accounting for funding from the Recovery Act, developing policies and procedures specific to deposits in excess of the FDIC insured limit of \$250,000 in a single bank account, and extending its yearly physical inventories to include all applicable property and equipment.

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INTRODUCTION

BACKGROUND

The Health Center Program

Pursuant to Public Law 104-299, the Health Centers Consolidation Act of 1996, health centers provide services to a population that is medically underserved. 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. The health centers provide comprehensive, culturally competent, quality primary health care services to medically underserved communities and vulnerable populations.

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 for health centers over two years. HRSA made available four types of grants 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 have received more than one type of grant.

Open Cities Health Center

The Open Cities Health Center, Inc. (Open Cities) located in St. Paul, Minnesota is one of the largest nonprofit community health centers in the Twin Cities' area and provides medical, dental, and mental health clinic services. Open Cities served over 17,000 clients from the Minneapolis-St. Paul area that made 56,000 visits to the clinic in 2004.

Open Cities is funded primarily through HRSA grants, Medicare, Medicaid, local grants, donations, and insurance payments. During fiscal year (FY) 2009, HRSA awarded two separate two-year Recovery Act grants¹ totaling \$1,034,987 to Open Cities.

Requirements for Federal Grantees

Pursuant to 45 CFR part 74, grantees of Federal awards must implement written accounting policies and procedures and maintain financial systems that provide for accurate and complete reporting of grant related financial data, effective control over grant funds, and allocation of costs to all benefitting programs. In addition, grantees must establish written procurement procedures. Grantees are also required to maintain inventory control systems and take periodic physical inventory of grant related equipment. In addition, pursuant to 45 CFR § 74.27, the allowability of costs incurred by nonprofit organizations is determined in accordance with the provisions of Office of Management and Budget Circular A-122, *Cost Principles for Nonprofit*

¹ The increased demand for services grant period was from March 27, 2009, through March 26, 2011. The capital improvement program grant period was from June 29, 2009, through June 28, 2011.

Organizations. Finally, section 330 of the Public Health Service Act defines requirements for health centers under the Health Center program (42 USCS § 254b).

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

Our objective was to assess Open Cities' 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 scope audit to assess Open Cities' capacity to manage, account for, and report Recovery Act funds and to operate a HRSA funded health center in accordance with Federal regulations. Therefore, we did not perform an overall assessment of Open Cities' internal control structure. Rather, we reviewed only the internal controls that pertained directly to our objectives. Our review period was January 1, 2006, through October 31, 2009.

We performed our fieldwork at the Open Cities' administrative office in St. Paul, Minnesota, during January 2010.

Methodology

To accomplish our objective, we:

- confirmed that Open Cities was not excluded from receiving Federal funds;
- reviewed relevant Federal laws, regulations, and guidance;
- reviewed Open Cities' application and implementation of the grant awards for the Recovery Act funding;
- reviewed the findings related to the most recent HRSA review;
- reviewed Open Cities' policies and procedures related to the Health Center Program;
- reviewed Open Cities' by-laws, minutes from its Board of Director meetings, and its organizational chart;

- performed audit steps to assess the adequacy of Open Cities' current financial systems; and
- reviewed Open Cities' audited financial statements and supporting documentation for the period of January 1, 2006, through December 31, 2008.

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, Open Cities is financially viable, but certain trends for net assets and debt may undermine the grantee's fiscal stability if not kept in check. Furthermore, Open Cities has the capacity to manage and account for Federal funds and the capacity to operate a community health center in accordance with Federal regulations. However, we noted weaknesses related to its fiscal status as well as a lack of written policies and procedures for accounting for property, Federal Deposit Insurance Corporation (FDIC) deposit limits, and Federal grant reporting.

FINANCIAL VIABILITY

To determine whether Open Cities is financially viable, we performed liquidity and stability analyses of Open Cities' finances for fiscal years (FY) 2006 through 2008. Our analysis of Open Cities' fiscal status provided conflicting indicators of financial viability.

During FYs 2006 through 2008, Open Cities had temporarily restricted net asset ratios of 1.94, 0.90, and 4.17, respectively. The high ratios (ratio greater than 1:1) indicate that Open Cities may be borrowing from net assets intended for use in future periods. During the same period Open Cities had unrestricted net asset ratios of (0.29), (0.16), and (0.08). These negative ratios indicate that Open Cities has a negative unrestricted net asset balance and, therefore has no reserve to meet temporary cash shortages, emergencies, or deficit situations in the future. We also performed a debt ratio analysis which is used to determine the overall financial risk of the organization. Open Cities had debt ratios of 1.3, 1.18, and 1.02 during the audit period. A debt ratio greater than 1 indicates that a company has more debt than assets. Additionally, Open Cities total liabilities were greater than total assets over the last three fiscal years.

Open Cities also had positive indicators of fiscal status for FYs 2006 through 2008. The current ratio for each of the three FYs was 1.46, 1.78, and 1.76, respectively. The quick ratios for the same period were 1.43, 1.72, and 1.72. Current and quick ratios greater than 1 are considered good. Net working capital (current assets-current liabilities) was positive for all three years with balances of \$756,795, \$1,124,977, and \$1,307,038, respectively. Also, revenues exceeded expenses for the three years with surpluses of \$845,612, \$932,581, and \$911,321, respectively.

Although we identified certain negative trends and conditions during our financial status analysis, we believe Open Cities is a financially viable organization. However, we would encourage a higher level of monitoring due to the negative financial trends identified during our review.

POLICIES AND PROCEDURES

Pursuant to 45 CFR part 74, grantees of Federal awards must implement written accounting policies and procedures and maintain financial systems that provide for accurate and complete reporting of grant related financial data, effective control over grant funds, and allocation of costs to all benefitting programs.

In order to comply with Federal regulations, Open Cities needs to implement policies and procedures for:

- inventory of property;
- deposits in excess of FDIC insured limit of \$250,000 in a single bank account; and
- grant reporting based on Recovery Act requirements.

Although we did not find any discrepancies in property inventory, bank balances in excess of \$250,000, or improper grant reporting, Open Cities did not have these written policies and procedures as required for Federal grantees. The development and implementation of written policies and procedures is essential considering Open Cities has property and equipment with a booked cost in excess of \$2.5 million. Additionally, the large award of Recovery Act funds could result in balances exceeding the \$250,000 FDIC insured limit.

RECOMMENDATION

In determining whether Open Cities is appropriately managing and accounting for the Recovery Act grant funding, we recommend that HRSA consider the information presented in this report in assessing Open Cities ability to operate a Community Health Center in accordance with Federal regulations.

OPEN CITIES COMMENTS

In written comments on our draft report, Open Cities stated that cash flow has been a challenge for several years. To improve its financial viability the clinic has focused on improving operational efficiencies to control or reduce expenses, and cash flow is monitored closely by management and the Board of Directors. The clinic is beginning to receive partial payments from the Minnesota Department of Human Services for outstanding receivables estimated at over \$1 million. Open Cities also stated that it will be updating its policies and procedures to include language specific to accounting for funding from the Recovery Act, developing policies and procedures specific to deposits in excess of the FDIC insured limit of \$250,000 in a single bank account, and extending its yearly physical inventories to include all applicable property and equipment.

APPENDIX



409 N. Dunlap St. • St. Paul, MN 55104 • PHONE: 651-290-9200 • FAX: 651-290-9210 • Administration Fax: 651-290-9210 • Medical Fax: 651-290-9201

April 5, 2010

Mike Barton, Audit Manager
Office of Inspector General
Office of Audit Services, Region V
233 North Michigan Avenue
Suite 1360
Chicago, IL 60601

Re: Report Number A-05-10-00034

Dear Mr. Barton:

Below are our comments written in response to the report and letter from Mr. James C. Cox, Regional Inspector General for Audit Services, dated March 31, 2010, regarding the Limited Scope Review at Open Cities Health Center.


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FINANCIAL VIABILITY

Despite the current difficult economic environment, Open Cities went to great lengths to avoid taking on any new long-term debt agreements to fund operations in 2009. Rather than funding operations through new debts, the clinic has focused on improving operational efficiencies to control or reduce expenses. As your findings indicate, Open Cities' debt ratio has improved from 1.3 to 1.02 from FY2006 to FY2008. Open Cities' net asset balance improved from (\$2,208,306) at the end of FY2006 to (\$128,190), a change of \$2,080,116 in three years. Revenues have exceeded expenses since FY2006, and we expect to end FY2009 with similarly positive results.

Cash flow has been a challenge for the clinic for several years, but it is closely monitored daily by management and monthly by the Finance Committee and Board of Directors. The clinic needed to borrow from its line of credit on a few occasions due to short-term cash shortfalls in 2009, but as of the writing of this letter, no funds are currently drawn from the \$300,000 line of credit. Open Cities will continue to work towards stabilizing the clinic's cash position. In 2008, Open Cities entered into a lawsuit filed jointly with five other Federally Qualified Health Centers in Minnesota against the Minnesota Department of Human Services (DHS) to end the delays in DHS's remittance of supplemental Medical Assistance payments to Open Cities covering medical and dental encounter claims for years 2003 through 2007. Outstanding receivables from DHS are estimated at over \$1 million. Clearly, the delays in DHS's supplemental payments to Open Cities have caused strains on clinic's cash position over the years. Open Cities, however, is finally beginning to receive partial payments for these claims which will only further improve Open Cities' net asset balance and net working capital as the clinic improves both its liquidity and stability and steadily pays down its long-term debt obligations.

Open Cities' 2007-2010 Strategic Plan, formulated by key Open Cities staff and members of the Board of Directors, calls for the development of 30 to 60 days' operating reserve to further



improve the clinic's stability and security. The Strategic Planning Team, still is scheduled to meet this coming May to review and update the Strategic Plan in light of Open Cities' accomplishments and new challenges.

POLICIES AND PROCEDURES

Open Cities' Chief Financial Officer and the Finance Committee will be updating Open Cities Financial Policies and Procedures in 2010 as indicated in our Finance Committee and Board minutes. Updates to the Policies and Procedures will include language specific to accounting for funding from the American Recovery and Reinvestment Act (ARRA). Open Cities' current procedures for accounting for the receipt, allocation, and expenditure of ARRA funding are secure, but we recognize that these procedures must be documented in accordance with 45 CFR part 74.

Open Cities will also develop policies and procedures specific to deposits in excess of the FDIC-insured limit of \$250,000 in a single bank account. Currently, Open Cities is able to insure the entirety of its cash deposits by limiting balances on an interest-bearing savings account to \$250,000 and depositing the remainder in a non-interest-bearing checking account, which under the FDIC's Transaction Account Guarantee Program is insured with no upper dollar value limit as long as no interest is earned under the account. Through its update of its Policies and Procedures this year, Open Cities will thoroughly evaluate whether or not the clinic would require additional savings accounts in light of the insurance limits and the clinic's average cash balances.

Lastly, Open Cities will also begin to conduct yearly physical inventories of its property in accordance with the audit recommendations. Currently, Open Cities conducts physical inventories of its computer equipment. Before year end, Open Cities will extend physical inventories to include all applicable property and equipment, and document these policies and procedures in its manual.

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We hope these comments have sufficiently addressed at this time the concerns outlined in the report. Open Cities will continue to work towards improving its operations, making judicious use of essential Federal funding. If you have any questions regarding this letter, please do not hesitate to contact me at 651-290-9245 or at dorii.gbolo@ohealthcenter.com.

Regards,

Dorii Gbolo
Executive Director