



October 27, 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 Center for Health and Wellness, Inc.
(A-07-10-03146)

The attached final report provides the results of our review of Center for Health and Wellness, Inc. 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 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 at (202) 619-1175 or through email at Lori.Pilcher@oig.hhs.gov. We look forward to receiving your final management decision within 6 months. Please refer to report number A-07-10-03146 in all correspondence.

Attachment

Department of Health & Human Services

**OFFICE OF
INSPECTOR GENERAL**

**RESULTS OF
LIMITED SCOPE REVIEW OF
CENTER FOR HEALTH AND
WELLNESS, INC.**



Daniel R. Levinson
Inspector General

October 2010
A-07-10-03146

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. These appropriations included \$500 million for grants to health centers, \$1.5 billion for health center construction, renovation, and equipment and for the acquisition of health information technology systems, and \$500 million to address health professions workforce shortages. HRSA made available four types of Recovery Act grants to health centers: new access points (NAP), increased demand for services (IDS), facilities investment program, and capital improvement program (CIP). Recovery Act grants were provided to both new and existing health centers; moreover, a center was permitted to receive more than one type of grant.

The Center for Health and Wellness, Inc. (CHW) began operations in July 1998 as a primary care facility specifically designed to meet the needs of the northeast Wichita, Kansas, community. CHW serves a large number of uninsured and underinsured families and operates programs in several areas such as hypertension, diabetes, cancer awareness, substance abuse, anger management, prenatal care, and dental health services.

On December 16, 2007, CHW applied for NAP grant funding in the amount of \$1.95 million (cumulative over a three-year period) to expand health care services. According to CHW’s NAP grant application, the funding would enable CHW to add three additional medical providers, add six new exam rooms, expand the prenatal clinic, expand the behavioral health program, and expand its oral health services. On August 20, 2009, HRSA awarded CHW a Recovery Act NAP grant in the amount of \$1.3 million.

On March 16, 2009, CHW applied for Recovery Act IDS grant funding in the amount of \$100,000 to expand existing services. According to CHW’s IDS grant application, the funding would also enable CHW to hire a dental hygienist for one day each week and to provide additional staff members for billing and human resources to maintain administrative controls.

On March 27, 2009, HRSA awarded CHW an IDS grant in the amount of \$100,000. On September 18, 2009, HRSA awarded CHW an additional \$1,000 due to a formula revision that increased the base allocation to \$101,000.

On June 3, 2009, CHW applied for Recovery Act CIP grant funding in the amount of \$250,000 for construction of the facility expansion. On June 25, 2009, HRSA awarded CHW a CIP grant in the amount of \$250,000.

OBJECTIVE

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

RESULTS OF REVIEW

Based on our assessment, we believe CHW is financially viable, has the capacity to manage and account for Federal funds, and is capable of operating its health center in accordance with Federal regulations. However, we identified several weaknesses in CHW's financial management: lack of written cash management policies and procedures, to include policies and procedures for adherence to Federal Deposit Insurance Corporation limits; lack of policies and procedures governing reporting requirements mandated by the Recovery Act; inadequate segregation of duties; and lack of adherence to inventory policies and procedures.

RECOMMENDATION

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

AUDITEE COMMENTS

In written comments to our draft report, CHW concurred with our findings and recommendation. CHW's comments appear in their entirety as the appendix.

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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 (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. These appropriations included \$500 million for grants to health centers, \$1.5 billion for health center construction, renovation, and equipment and for the acquisition of health information technology systems, and \$500 million to address health professions workforce shortages. HRSA made available four types of Recovery Act grants to health centers: new access points (NAP), increased demand for services (IDS), facilities investment program, and capital improvement program (CIP). Recovery Act grants were provided to both new and existing health centers; moreover, a center was permitted to receive more than one type of grant.

Center for Health and Wellness, Inc.

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

We performed our fieldwork at CHW's administrative office in Wichita, Kansas, during April 2010.

Methodology

To accomplish our objective, we:

- reviewed relevant Federal laws, regulations, and guidance, to include HRSA program and policy announcements;
- obtained and reviewed CHW's HRSA grant application packages and supporting documentation;
- interviewed CHW personnel to gain an understanding of its accounting systems and internal controls;
- reviewed CHW's fiscal procedures related to accounting documentation and preparation of financial reports;
- reviewed CHW's financial statements for fiscal years (FY) 2007 through 2008;
- reviewed CHW's IRS Forms 990 and supporting documentation for FY 2008;
- performed ratio analyses of CHW's financial statements for FYs 2007 through 2008;
- reviewed CHW's independent audits for FYs 2007 through 2008;
- reviewed CHW's by-laws;
- reviewed minutes from CHW's Board of Director meetings; and
- discussed the results of our review with CHW officials on June 3, 2010.

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 CHW is financially viable, has the capacity to manage and account for Federal funds, and is capable of operating its health center in accordance with Federal regulations. However, we identified several weaknesses in CHW's financial management: lack of written cash management policies and procedures, to include policies and procedures for adherence to Federal Deposit Insurance Corporation (FDIC) limits; lack of policies and procedures governing reporting requirements mandated by the Recovery Act; inadequate segregation of duties; and lack of adherence to inventory policies and procedures.

WEAKNESSES IN FINANCIAL MANAGEMENT

Lack of Written Cash Management Policies and Procedures

Pursuant to 45 CFR § 74.21(b)(3), grantees' financial management systems must provide effective control over and accountability for all funds, property, and other assets so that recipients adequately safeguard all such assets and assure they are used solely for authorized purposes. Pursuant to 45 CFR § 74.21(b)(6), grantees 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 Federal grant award.

Pursuant to 45 CFR § 74.22(i)(2), grantees are required to deposit and maintain advances of Federal funds in insured accounts whenever possible. Further, FDIC policy states that deposits owned by a corporation, partnership, or unincorporated association are insured up to \$250,000 at a single bank.

CHW did not have written policies and procedures to ensure the reasonableness, allocability and allowability of costs in accordance with applicable cost principles. Funds that are not correctly allocated—for example, funds used for such expenses as gifts or luncheons—may encourage unacceptable use of Federal grant and contract funds.

Further, CHW did not have written cash management policies and procedures to ensure that cash balances did not exceed federally insured limits. Although CHW did not maintain bank balances that exceeded the \$250,000 federally insured limit, the lack of written cash management policies and procedures regarding adherence to FDIC limits creates an increased risk that the grantee's funds could exceed those limits and, in turn, be subject to an increased risk of loss in the event of a bank failure.

Lack of Policies and Procedures Governing Reporting Requirements Mandated by the American Recovery and Reinvestment Act of 2009

Pursuant to section 1512(c) of the Recovery Act:

Not later than 10 days after the end of each calendar quarter, each recipient that received recovery funds from a Federal agency shall submit a report to that agency that contains—

- (1) the total amount of recovery funds received from that agency;
- (2) the amount of recovery funds received that were expended or obligated to projects or activities; and
- (3) a detailed list of all projects or activities for which recovery funds were expended or obligated

CHW did not have policies and procedures to address the specific reporting requirements of the Recovery Act. This could lead to less transparency as grantees that do not fulfill these reporting requirements could create the risk that the public does not have access to information on the manner in which Recovery Act funds are being expended.

Inadequate Segregation of Duties

Pursuant to 45 CFR § 74.21(b)(3), grantees' financial management systems must provide effective control over and accountability for all funds, property, and other assets so that recipients adequately safeguard all such assets and assure they are used solely for authorized purposes. In addition, pursuant to 42 USC § 254b(1)(3)(D) and 45 CFR §§ 74.14, 74.21, and 74.26, a health center must maintain separate functions appropriate to organizational size to safeguard assets and maintain financial stability.

CHW did not adequately segregate financial management duties in the following high-risk areas:

- **Cash Disbursements:** The Chief Financial Officer had access to perform both the authorization and the recording duties related to cash disbursements. These duties should be performed by separate individuals to ensure the integrity of the cash disbursements function.
- **Check Stock:** The supply of unused blank checks was under the control of the accountant, who also prepared the checks for payment. These duties should be performed by separate individuals to ensure the integrity and safeguarding of check stock.
- **Payroll:** Payroll functions were not segregated among timekeeping, payroll preparation, and payroll distribution. These duties should be performed by separate individuals to ensure the integrity of the payroll function.

Inadequate segregation of duties could result in delay or inability to detect accounting inaccuracies and/or misappropriation of assets by theft or fraud.

Lack of Adherence to Inventory Policies and Procedures

Pursuant to 45 CFR § 74.21(b)(3), grantees' financial management systems must provide effective control over and accountability for all funds, property, and other assets so that recipients adequately safeguard all such assets and assure they are used solely for authorized purposes. In addition, 45 CFR §§ 74.34(f)(3) and 74.44(a) require grantees to maintain inventory control systems and take periodic physical inventory of grant-related equipment and to establish written procurement procedures.

CHW's Policy and Procedure Manual, chapter (VI)(B), states:

1. CHW will maintain a master inventory database.
2. Included in the master inventory database will be the item's name, description, date of purchase, vendor, value at time of purchase, county identification number if assigned, and funding sources. The funding sources are as follows: Private Foundation, Taxes, Fees and Grants – Federal/State.
3. Master inventory items will be divided into the following categories:
 - a. Office equipment
 - b. Furniture
 - c. Medical Equipment
 - d. Building/Improvements/Fixtures

In addition, CHW's Policy and Procedure Manual, chapter (IV)(P)(4), states:

CHW will develop and implement property management standards for equipment acquired with federal funds (or federally-owned equipment), including:

- a. Development and maintenance of equipment records that include a description of the equipment, the manufacturer's serial number (or similar means of identification), the source of the equipment, whether title vests in CHW or DHHS [U.S. Department of Health & Human Services], the acquisition date, information to calculate the federal share, location and condition of the equipment, unit cost, and disposition data.
- b. Identification of equipment owned by DHHS as such.
- c. Annually, an inventory of the equipment and reconciliation of the inventory results with the equipment records.

- d. Maintenance of a system to ensure adequate safeguards against loss, damage, or theft.
- e. Procedures to ensure adequate physical maintenance of the equipment (to keep it in good working condition).
- f. Sales procedures which provide for competition, to the extent possible.

CHW did not follow its policies and procedures because it did not maintain a master inventory database; nor did it develop and implement property management standards. CHW used its depreciation report as its master inventory database. The CHW depreciation report did not include required items as stated in the CHW Policy and Procedure Manual, such as identification of vendor and funding sources. Additionally, CHW did not develop and maintain equipment records that included the manufacturer's serial number (or similar means of identification), explanation of whether title for particular items vested in CHW or in HHS, information to calculate the Federal share, location and condition of the equipment, and disposition data.

Furthermore, CHW did not provide any evidence that it had performed a reconciliation of the inventory on an annual basis. Nonperformance of inventory counts could cause a delay or inability to detect misappropriation of assets by theft or fraud.

RECOMMENDATION

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

AUDITEE COMMENTS

In written comments to our draft report, CHW concurred with our findings and recommendation. CHW's comments appear in their entirety as the appendix.

APPENDIX

APPENDIX: AUDITEE COMMENTS



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CORRECTIVE ACTION PLAN

October 01, 2010

DEPARTMENT OF HEALTH AND HUMAN SERVICE

OFFICE OF INSPECTOR GENERAL

Center for Health and Wellness, Inc. (CHW) respectfully submits the following corrective action plan for the Office of Inspector General Audit Report dated September 28, 2010 A-07-10-03146.

The findings from the September 28, 2010 report schedule of findings and recommendation are discussed below.

WEAKNESSES IN FINANCIAL MANAGEMENT

DEPARTMENT FOR HEALTH AND HUMAN SERVICES

2010-01 Health Center Cluster

Health center Cluster-CFDA No. 93.224; Grant Period Year Ended February 28, 2010
Recovery Act Health Center Cluster Program- CFDA No. 93.703; Grant Period Year Ended February 28, 2010

ARRA-Increase Services to Health Centers – CFDA No. 93.703; Grant Period Year Ended March 26, 2010

Capital Improvement Program-CFDA No. 93.703; Grant Period Year Ended June 30, 2010

Recommendation: CHW should have written cash management policies and procedures to ensure that cash balances do not exceed the \$250,000 federally insured limits. CHW should also have written policies and procedures to ensure the reasonableness, allocability and allowability of costs to encourage acceptable use of Federal Grant Funds.

Action Taken: We concur with the recommendation, and the policies will be written by the Chief Financial Officer (CFO) by November 30, 2010.

Recommendation: CHW should have written policies and procedures addressing the specific reporting requirements of the American Recovery and Reinvestment Act of 2009.

Action Taken: We concur with the recommendation, and the policies will be written by the Chief Financial Officer (CFO) by November 30, 2010.

Recommendation: CHW should segregate financial management duties in the following high risk areas: cash Disbursements, check Stock, and payroll.

Action Taken: We concur with the recommendation. The check stock has been removed from the accountant's custody. The remaining duties will be segregated to the extent possible, for a two person accounting department, by October 31, 2010.

Recommendation: CHW should adhere to the policies and procedures that it has in place related to inventory items (equipment).

Action Taken: We concur with the recommendation. CHW will adhere to the inventory policies and procedures in place by December 31, 2010.

If the DEPARTMENT FOR HEALTH AND HUMAN SERVICES has questions regarding this plan, please call Dottie J. Daves, Chief Financial Officer, at 316-691-0249.

Sincerely,

Data Redacted by OIG/OAS

Dottie J. Daves
Chief Financial Officer
Center for Health and Wellness, Inc.