Department of Health and Human Services

OFFICE OF INSPECTOR GENERAL

AUDIT OF FEDERAL FUNDS RECEIVED BY RURAL HEALTH SERVICES, INC. d/b/a MARGARET J. WESTON MEDICAL CENTER CLEARWATER, SOUTH CAROLINA

The designation of financial or management practices as questionable or a recommendation for the disallowance of cost incurred or claimed as well as other conclusions and recommendations in this report represent the findings and opinions of the HHS/OIG/OAS. Final determination on these matters will be made by authorized officials of the HHS operating divisions.

JUNE GIBBS BROWN
Inspector General

JUNE 1999
A-04-98-04225

DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of Inspector General
Office of Audit Services

REGION IV
Room 3T41
61 Forsyth Street, S.W.
Atlanta, Georgia 30303-8909

JUN 17 1999

CIN: A-04-98-04225

Ms. Geneva R. Greene, Chairperson and
Members of the Board of Directors
Rural Health Services, Inc.
d/b/a Margaret J. Weston Medical Center
P. O. Box 277
Clearwater, South Carolina 29822

Dear Ms. Greene:

This report discusses our audit of Federal grant funds awarded to Rural Health Services, Inc., d/b/a the Margaret J. Weston Medical Center, under Section 330 of the Public Health Service Act. Our audit was initiated following allegations from a former member of the Center's Board of Directors related to misappropriation and mismanagement of grant funds as well as fraudulent billings to the Medicare and Medicaid programs.

EXECUTIVE SUMMARY

Objectives

The objectives of our audit were to assess the validity of the allegations against Center officials during the period June 1, 1994 through May 31, 1998 and evaluate the Center's viability as a "going concern" in light of significant operating losses in recent years and a steadily worsening financial situation.

Findings

Our audit disclosed no misappropriation of Federal grant funds or fraudulent billings to the Medicare and Medicaid programs. However, we concluded that many of the allegations related to mismanagement of the Center were valid. We found significant deficiencies in almost every aspect of the Center's fiscal and administrative operations during the period June 1, 1994 through May 31, 1998.

During that period, the Center lacked the most basic internal and management controls needed to protect its assets and meaningful policies and procedures needed to guide its operations. After years of operating losses, the Center was deeply in debt and critically short of working capital. Although many vendors were unpaid for long periods, the Center's management had made no concerted effort to reduce wasteful and unnecessary spending. Effective decision making was hampered by inadequate accounting and patient management systems not meeting the Center's needs. While independent auditors and Federal review teams had pointed out significant deficiencies and recommended changes, neither the Board of Directors nor their Executive Directors took the necessary corrective actions.

In response to these deteriorating conditions and the Center's apparent unwillingness to implement the necessary corrective actions, the Health Resources and Services Administration (HRSA) made continuation of Section 330 grant support to the Center conditional upon formation of a new Board of Directors. The new Board took office in May 1998 and, in June 1998, employed a new Executive Director to manage Center operations.

Since that time, the new Board of Directors and Executive Director have taken action in a wide range of areas to correct the Center's fiscal and administrative deficiencies and have made significant headway in restoring the Center's credibility and financial viability.

We are recommending that the Board of Directors and Executive Director continue their efforts to rebuild the Center's fiscal and administrative operations. In addition, we are making additional recommendations which we believe will help ensure compliance with Federal requirements and foster long-term growth of the organization.

In their formal response to a draft of this report, which is presented as Appendix A, the Center's Board of Directors expressed their concurrence with our findings and recommendations. The Board's comments also stated that the Center has recently employed a Chief Financial Officer and expects to receive the necessary funding from local community organizations to purchase an appropriate information system.

BACKGROUND

Section 330 of the Public Health Service Act authorizes grants to public and non-profit private organizations to plan, develop and operate community health centers to benefit medically underserved populations. These centers provide a range of primary and supplemental medical services to individuals who otherwise face barriers to the availability to necessary health care.

Organized in 1970, Rural Health Services, Inc. operates as the Margaret J. Weston Medical Center to provide services for residents of Aiken and Barnwell Counties of South Carolina. The Center's primary facility is located in Clearwater, South Carolina with a satellite facility in Aiken, South Carolina. During the period June 1, 1994 through May 31, 1998, the Center was awarded Section 330 grant funds totaling $1,676,074, as follows:

Fiscal Year (FY) Ended	Grant Funds Received
May 31, 1995	$ 338,155
May 31, 1996	$ 439,863
May 31, 1997	$ 458,193
May 31, 1998	$ 439,863

Within HRSA, the Section 330 grant program is directed by the Bureau of Primary Health Care (BPHC). The BPHC provides guidance and support for the Center and other grantees in Region IV through its Southeast Field Office in Atlanta, Georgia.

In April 1998, a former member of the Board of Directors requested that the Office of Inspector General investigate the Center's operations. In brief, the former Director alleged that Center officials had misappropriated and mismanaged Federal grant funds awarded to the Center and that Center staff had possibly submitted fraudulent billings to the Medicare and Medicaid programs.

OBJECTIVES, SCOPE AND METHODOLOGY

Objectives

The objectives of our audit were to assess the validity of allegations regarding misappropriation, mismanagement and fraudulent billings by Center officials and staff during the period from June 1, 1994 through May 31, 1998 and evaluate the Center's viability as a "going concern" in light of significant operating losses in recent years and a steadily deteriorating financial situation.

Scope

Field work on our audit was performed at the Center's facility in Clearwater, South Carolina and the Atlanta Regional Office from July through November 1998 and in April 1999.

Our assessment of internal controls was, in large part, limited to the new and/or revised controls established by the Center during the period June 1998 through April 1999. The internal control environment existing prior to that time contained so many deficiencies that we were forced to expand our substantive testing in order to draw any conclusions as to the Center's compliance with legal and regulatory requirements.

Methodology

To accomplish our objective, we first met with the former Director to discuss the bases for her allegations and review documentation as to specific allegations of misappropriation and/or mismanagement of Federal funds. We then:

- met with management and staff to gain an understanding of Center operations;
- analyzed reports from independent auditors, Federal review teams and other sources to identify previously noted deficiencies and recommended corrective actions;
- reviewed minutes from Board of Directors meetings and the financial and programmatic data provided to the Board for their consideration;
- examined records, reports and other documentation available to support recorded revenues and expenses; and
- identified billings submitted to the Medicare and Medicaid programs by the Center's medical staff.

Our audit was conducted in accordance with generally accepted government auditing standards. We used provisions of the Office of Management and Budget (OMB) Circular A-122, "Cost Principles for Non-Profit Organizations" as criteria in evaluating the allowability of the Center's recorded costs. Our assessment of the Center's fiscal and administrative operations was based upon OMB Circular A-133, "Audits of States, Local Governments and Non-Profit Organizations" and the BPHC policy statement entitled "Health Center Program Expectations."

On June 3, 1999, we provided a draft of this report to the Center's Board of Directors for review and comment. Their formal response, dated June 8, 1999, is summarized in our report and is incorporated in its entirety as Appendix A.

FINDINGS IN DETAIL

Our audit disclosed no material misappropriation of Federal grant funds or fraudulent billings to the Medicare and Medicaid programs. However, we found that many of the allegations regarding mismanagement at the Center were valid. In brief, our audit disclosed serious deficiencies in almost every aspect of the Center's fiscal and administrative operations from June 1, 1994 through May 31, 1998.

During that period, the Center lacked the most basic internal and management controls needed to protect its assets and meaningful policies and procedures needed to guide its operations. After years of operating losses, the Center was deeply in debt and critically short of working capital. Although many vendors were unpaid for long periods of time, the Center's management had made no concerted effort to reduce unnecessary and wasteful spending practices. Effective decision making was hampered by inadequate accounting and patient management systems that did not meet the Center's needs. Although the Center's independent auditors and Federal review teams pointed out significant problems and recommended changes, neither the Board of Directors nor their Executive Directors took the necessary corrective actions.

The Center's worsening financial situation can be illustrated by analysis of their annual financial statements for recent years, as discussed below. The Center's financial statements show, for example, that the Center's revenues increased significantly each year during the period June 1, 1994 through May 31, 1998. However, operating expenses increased at an even faster rate over the period, and the Center incurred operating losses in each of the 4 years, as shown below.

FY	Revenues	Expenses	Profit/(Loss)
1998	$1,377,943	$1,449,975	$ (72,032)
1997	$1,257,141	$1,274,860	$ (17,719)
1996	$ 845,169	$ 889,213	$ (44,044)
1995	$ 609,752	$ 633,273	$ (23,521)

By May 31, 1998, the cumulative effect of these losses had dramatically eroded the Center's financial situation. For example:

- the Center's current liabilities, debts which must be paid within 12 months, had increased from $195,607 to $347,979 over the period;

- the Center's current ratio, current assets divided by current liabilities, had decreased from .73 to .56; and

- the Center's unrestricted net assets had decreased from $172,801 to $102,310 from the beginning of FY 1995 to the close of FY 1998.

Further, analysis of the accounting records and related documents showed that many of the Center's creditors had been unpaid for long periods, that the Center had failed to remit payroll taxes withheld from its employees on a timely basis, and that the reserve fund required by the Center's mortgage agreement had to be used to meet current cash needs.

By any standard measure, the Center faced significant financial difficulties throughout the period. However, we found little evidence that the Center's Board of Directors had made any concerted effort to alleviate these conditions or even recognized the extent of the problems. The minutes of Board meetings over the period, for example, showed only isolated discussions of the Center's financial situation and, in fact, the majority of those comments reflected satisfaction with that situation. Further, we found only isolated discussions related to the many deficiencies noted by the Center's independent auditors, by Federal review teams and by other sources. Over the 4-year period covered by our audit, the need to alleviate significant deficiencies in the Center's operations was basically ignored by the Board of Directors and Executive Directors.

In response to deteriorating conditions at the Center and the apparent unwillingness to initiate the necessary corrective actions, HRSA made continuation of grant support to the Center conditional upon formation of a new Board of Directors. The new Board took office in May 1998 and, in June 1998, employed a new Executive Director to manage Center operations.

Based on actions taken during our audit, we believe the new Board of Directors and Executive Director are capable and committed to fulfilling the Center's mission in full compliance with the applicable laws, regulations and guidelines. As briefly discussed below, they have acted to correct past deficiencies and position the Center for the future.

- The Center has reduced its average monthly operating costs from $120,831 during 1998 to $80,821 in 1999, a decrease of more than 33 percent, and adopted a financial recovery plan based on realistic estimates of anticipated revenues and expenses. For example, the Center has significantly reduced its staffing costs by eliminating unnecessary employees and reducing working hours for its administrative staff and reduced its operating costs by eliminating or deferring non-essential costs. At the same time, the Center has increased its revenues through enhancements to its billing and collection process. The Center's operating losses, discussed earlier in this report, have been stemmed and the Center's revenues are now sufficient to cover its operating costs and reduce its remaining debt load.

- The Center has established policies and procedures incorporating realistic management and internal controls in a number of areas. New policies implemented by the Board of Directors and Executive Director provide enhanced guidance in such critical areas as provider credentialing and privileging, patient grievances, billing and collection, grant draw-downs, and accounts payable.

- The Center has contracted with a local accounting firm to generate accurate and reliable interim financial data until such time as a qualified financial manager can be employed and an appropriate accounting system can be installed. While we still believe it is essential that the Center develop adequate in-house financial management capabilities, the current arrangement enhances the ability of the Board of Directors and Executive Director to make effective decisions based on accurate and timely accounting information.

- The Center has made significant headway in repaying its vendors and restoring its credit. During the period June 1, 1998 through March 31, 1999, the Center made systematic payments to reduce its outstanding debts and, as a result, reduced its current liabilities from \$347,979 to \$276,281 while raising its current ratio from .53 to .87. Further, the Center is in a position to make further significant reductions to its debt load as the numbers of patient encounters and revenues continue to increase.

- The Center has restructured its fee schedule to more accurately reflect prevailing rates and dramatically reduced its minimum charge to enhance access for the neediest of its patients. Beginning in September 1998, the Center adopted an equitable and consistent basis for its patient fees to replace the haphazard and apparently illogical bases used in past years. The Center reduced its minimum charge from \$25, higher than any other health center in the State, to \$15. This action significantly enhances access to needed medical care by the area's most needy citizens.

- The Center had revised its billing system to identify correct Medicare and Medicaid billing rates and revenues which had previously been lost because the system was not updated. This allowed the Center to generate more than \$46,000 of additional revenue by resubmitting erroneous bills for prior months and will increase current revenues on a regular basis.

- The Center has reestablished communications with local employers, civic groups and community organizations which can assist the Center in fulfilling its mission. Volunteers from the area's largest employer, for example, have donated time to assist in reconstructing inaccurate financial records generated by the Center's accounting system and a local community organization has discussed the possibility of assisting in the acquisition of the new information systems needed for further growth.

We have been very pleased by the actions initiated by the new Board of Directors and Executive Director. While a heavy debt load remains a major concern and limits management's ability to implement some additional improvements, we believe the Center is now in a good position to continue recovering from its past problems and providing needed services to the citizens of Aiken and Barnwell counties.

We are recommending that the Board of Directors and Executive Director continue their efforts to rebuild the Center's fiscal and administrative operations. In addition, we are making a number additional recommendations which we believe are necessary to encourage the Center's long-term growth and ensure compliance with Federal requirements. Specifically, we recommend that the Center:

1. Employ a qualified financial manager and obtain appropriate accounting and patient management systems. While the current arrangement with a local accounting firm has alleviated the Center's most pressing need for accurate and timely interim data, we believe it is essential to develop an in-house capacity which will allow continued improvement of standard accounting functions and additional analysis needed for proper consideration of future decisions by the Board of Directors and Executive Director.

2. Continue the process of restructuring its fee schedules based on an analysis of resources used to provide services. While the existing accounting and information management systems are not adequate to develop data needed for a valid analysis of resource based charges, new systems such as recommended above would generate this information and allow development of the most equitable and consistent fee structure.

In their formal comments dated June 8, 1999, the Center's Board of Directors concurred with our findings and recommendations as presented in a draft of this report. The Board also advised us that they had recently employed a Chief Financial Officer and hope to receive the necessary funding from local community organizations to purchase an appropriate information system. The full text of the Center's comments is incorporated as Appendix A.

Final determination as to actions taken on all matters reported will be made by the HHS action official named below. We request that you respond to the HHS action 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.

In accordance with the principles of the Freedom of Information Act (Public Law 90-23), Office of Inspector General, Office of Audit Services reports issued to the Department's grantees and contractors are made available, if requested, to members of the press and general public to the extent that information contained therein is not subject to exemptions in the Act which the Department chooses to exercise (See 45 CFR Part 5)

If you have any questions, please contact Mr. Michael D. Geiger, Audit Manager for PHS Audits, at 404-562-7756. Please refer to the Common Identification Number (CIN) A-04-98-04225 in any correspondence related to this report.

Sincerely yours,

Charles J. Curtis
Regional Inspector General
For Audit Services

cc:
Mr. Tony Dunn, Executive Director
Margaret J. Weston Medical Center

Enclosure

Direct Reply to
<u>HHS Action Official</u>

Chief, Cost Advisory and Audit Resolution Branch
Division of Grants and Acquisition Management
Health Resources and Services Administration
Parklawn Building, Room 13A-27
5600 Fishers Lane
Rockville, Maryland 20857

Margaret J. Weston Medical Center
Rural Health Services, Inc.

June 8, 1999

Mr. Charles J. Curtis
Regional Inspector General for Audit Services
Office of Inspector General
Department of Health and Human Services
Region IV, Room 3T41
61 Forsyth St., SW
Atlanta, GA 30303-8909

Re: CIN A-04-98-04225

Dear Mr. Curtis:

We have reviewed the report concerning the audit conducted by your office for the period June 1, 1994 through May 31, 1998. We concur with the audit findings outlined in the report and appreciate your recognition and acknowledgement of the actions we have taken to assure that our Center is currently and will remain in full compliance with the applicable laws, regulations, and guidelines which govern community health centers.

We also concur with the recommendations that you have provided and have made significant progress in these areas. We have recently recruited and hired a local CPA with 23 years accounting experience to be our Chief Financial Officer. We also believe that with the issuance of the final audit report from your office we will be able to acquire necessary funding assistance from local community agencies to purchase a state of the art information system.

The Board of Directors and Executive Director of Margaret J. Weston Medical Center have worked closely with the Southeast Regional Field Office over the past year and will continue to seek the guidance of our project officer and others in the future. We are committed to our patients and will endeavor to meet their needs and provide the highest level of quality health care to our community.

Sincerely,

Geneva R. Greene — Reginal B. Barner

Geneva R. Greene
Board Chairman

Reginal B. Barner
Past Board Chair

(803) 593-9283
P.O. BOX 277 • CLEARWATER, SC 29822