

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**CONSEJO DE SALUD DE
PUERTO RICO, INC., DID NOT
ALWAYS CLAIM RECOVERY ACT COSTS
IN ACCORDANCE WITH
FEDERAL REQUIREMENTS**

*Inquiries about this report may be addressed to the Office of Public Affairs at
Public.Affairs@oig.hhs.gov.*



Gloria L. Jarmon
Deputy Inspector General

September 2012
A-02-11-02011

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, codified at 42 U.S.C. § 254b. The Health Center Program provides comprehensive primary health care services to medically underserved populations through planning and operating grants to health centers. Within the U.S. Department of Health and Human Services (HHS), the Health Resources and Services Administration (HRSA) administers the 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, \$2 billion of which was to expand the Health Center Program by serving more patients, stimulating new jobs, and meeting the expected increase in demand for primary health care services among the Nation’s uninsured and underserved populations. HRSA awarded a number of grants using Recovery Act funding in support of the Health Center Program, including Capital Improvement Program (CIP), New Access Points (NAP), and Increased Demand for Services (IDS) grants.

Consejo de Salud de Puerto Rico, Inc. (Consejo) is a nonprofit community health center that provides medical, dental, mental, and ancillary health services such as diagnostic testing and pharmacy to residents of four communities in southern Puerto Rico. Consejo is primarily funded by Federal, State, and local grants.

Consejo received \$23,839,900 in revenue from all funding sources during fiscal year 2009. Of this amount, \$2,148,540 was awarded by HRSA under a CIP grant to make improvements to existing facilities, and a total of \$2,051,212 was awarded under NAP and IDS grants to increase access and reduce barriers to health care within Consejo’s service area.

Consejo must comply with Federal cost principles in 2 CFR pt. 230, *Cost Principles for Non-Profit Organizations*, the requirements for health centers in 42 U.S.C. § 254(b), and the financial management system requirements in 45 CFR § 74.21. Pursuant to 2 CFR part 230, Appendix A, § A.2.g, costs must be adequately documented to be allowable under an award. Pursuant to 2 CFR part 230, Appendix B, §§ 8.b and 8.m, for salaries and wages to be allowable for Federal reimbursement, grantees must maintain personnel activity reports that reflect the distribution of activity of each employee whose compensation is charged in whole or in part, directly to Federal awards.

OBJECTIVE

Our objective was to determine whether costs claimed by Consejo were allowable under the terms of the grant and applicable Federal requirements.

SUMMARY OF FINDINGS

Of the \$2,548,872 in costs that we reviewed, Consejo claimed \$957,008 in costs that were allowable under the terms of the grant and applicable Federal requirements. We were unable to determine if the remaining \$1,591,864 in salary and fringe benefit costs were allowable because Consejo did not prepare personnel activity reports for employees whose time was charged to the grant. Moreover, Consejo did not have written procedures for determining the allowability of expenditures in accordance with applicable Federal requirements.

RECOMMENDATIONS

We recommend that HRSA:

- either require Consejo to refund \$1,591,864 to the Federal Government (\$878,274 related to the NAP grant and \$713,590 related to the IDS grant) or work with Consejo to determine whether any of the costs that it claimed against these grants were allowable,
- educate Consejo officials on Federal requirements for supporting salaries and wages, and
- ensure that Consejo (1) develops written procedures for determining the allowability of expenditures and (2) maintains personnel activity reports for each employee who works on Federal awards.

CONSEJO DE SALUD DE PUERTO RICO, INC., COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE

In written comments on our draft report, Consejo disagreed with our first recommendation and generally agreed with our remaining recommendations. Further, Consejo requested time to provide additional documentation through “alternate methods” to validate that the \$1,591,864 in salary and fringe benefit costs were allowable. Consejo subsequently clarified that the additional documentation consisted of after-the-fact personnel activity reports prepared after our fieldwork and sworn statements from its employees. Since the additional documentation was created subsequent to our review, we did not grant Consejo’s request for time to submit the additional documentation. Consejo’s comments are included as Appendix A.

HEALTH RESOURCES AND SERVICES ADMINISTRATION COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE

In written comments on our draft report, HRSA concurred with our recommendations. HRSA’s comments are included in their entirety as Appendix B.

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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, codified at 42 U.S.C. § 254b. The Health Center Program provides comprehensive primary health care services to medically underserved populations through planning and operating grants to health centers. Within the U.S. Department of Health and Human Services (HHS), the Health Resources and Services Administration (HRSA) administers the program.

The American Recovery and Reinvestment Act of 2009

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, \$2 billion of which was to expand the Health Center Program by serving more patients, stimulating new jobs, and meeting the expected increase in demand for primary health care services among the Nation’s uninsured and underserved populations. HRSA awarded a number of grants using Recovery Act funding in support of the Health Center Program, including Capital Improvement Program (CIP), New Access Points (NAP), and Increased Demand for Services (IDS) grants.

Consejo de Salud de Puerto Rico, Inc.

Consejo de Salud de Puerto Rico, Inc. (Consejo) is a nonprofit community health center that provides medical, dental, mental, and ancillary health services such as diagnostic testing and pharmacy to residents of four communities in southern Puerto Rico. Consejo is primarily funded by Federal, State, and local grants.

Consejo received \$23,839,900 in revenue from all funding sources during fiscal year (FY) 2009. Of this amount, \$2,148,540 was awarded by HRSA under a CIP grant to make improvements to existing facilities, and a total of \$2,051,212 was awarded under NAP and IDS grants to increase access and reduce barriers to health care within Consejo’s service area.¹

Federal Requirements for Grantees

Title 45, part 74, of the Code of Federal Regulations establishes uniform administrative requirements governing HHS grants and agreements awarded to nonprofit organizations. As a nonprofit organization in receipt of Federal funds, Consejo must comply with Federal cost principles in 2 CFR pt. 230, *Cost Principles for Non-Profit Organizations* (formerly Office of Management and Budget Circular A-122), incorporated by reference at 45 CFR § 74.27(a).

¹ The grant budget periods for the funds awarded were: June 29, 2009, through June 28, 2011, for the CIP grant funds; March 1, 2009, through May 31, 2011, for the NAP grant funds; and March 27, 2009, through March 26, 2011, for the IDS grant funds.

These cost principles specify the criteria that costs must meet to be reasonable, allocable, and otherwise allowable. The HHS awarding agency may include additional requirements that are considered necessary to attain the award's objectives.

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

Our objective was to determine whether costs claimed by Consejo were allowable under the terms of the grant and applicable Federal requirements.

Scope

We limited our review to costs, totaling \$2,548,872, claimed by Consejo during the period July 22, 2009, through August 4, 2011. We did not perform an overall assessment of Consejo's internal control structure. Rather, we reviewed only the internal controls related to our objective.

We performed fieldwork at Consejo's administrative office in Ponce, Puerto Rico.

Methodology

To accomplish our objective, we:

- reviewed relevant Federal laws, regulations, and guidance;
- obtained and reviewed Consejo's HRSA grant applications, notices of grant award and supporting documentation;
- interviewed Consejo personnel to gain an understanding of Consejo's accounting system, internal controls over Federal expenditures, and CIP, NAP, and IDS grant activities;
- reviewed Consejo's independent auditor's reports and related financial statements for FYs 2009 and 2010;
- compared approved budgeted amounts to actual grant expenditures;
- obtained and reviewed a list of the grantee's drawdowns and compared them with the amounts expended to ensure that drawdowns did not exceed expenditures;
- reconciled grant expenditures to Federal financial reports;
- analyzed selected expenditures for allowability; and
- discussed our results with Consejo 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 objectives.

FINDINGS AND RECOMMENDATIONS

Of the \$2,548,872 in costs that we reviewed, Consejo claimed \$957,008 in costs that were allowable under the terms of the grant and applicable Federal requirements. We were unable to determine if the remaining \$1,591,864 in salary and fringe benefit costs were allowable because Consejo did not prepare personnel activity reports for employees whose time was charged to the grant. Moreover, Consejo did not have written procedures for determining the allowability of expenditures in accordance with applicable Federal requirements.

GRANT FUNDS NOT SUPPORTED WITH DOCUMENTATION

Federal Requirements

Pursuant to 2 CFR part 230, Appendix A, § A.2.g, costs must be adequately documented to be allowable under an award. Pursuant to 2 CFR part 230, Appendix B, §§ 8.b and 8.m, for salaries and wages to be allowable for Federal reimbursement, grantees must maintain personnel activity reports that reflect the distribution of activity of each employee whose compensation is charged, in whole or in part, directly to Federal awards. These reports must reflect an after-the-fact determination of the actual activity of the employee, be signed by the employee or a supervisory official having firsthand knowledge of the employee's activities, be prepared at least monthly, coincide with one or more pay periods, and account for the total activity of the employee.

In addition, 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.

Salary and Fringe Benefit Costs

We could not determine the allowability of salary and fringe benefit costs, totaling \$1,591,864 (\$878,274 related to the NAP grant and \$713,590 related to the IDS grant), because Consejo did not maintain the required personnel activity reports for employees who worked on the NAP and IDS grants. In addition, Consejo did not have written procedures for determining the allowability of expenditures in accordance with the provisions of the applicable Federal cost principles. Consejo officials stated that they were unaware of the requirement to maintain personnel activity reports of actual activity for employees who worked on Federal awards.

RECOMMENDATIONS

We recommend that HRSA:

- either require Consejo to refund \$1,591,864 to the Federal Government (\$878,274 related to the NAP grant and \$713,590 related to the IDS grant) or work with Consejo to determine whether any of the costs that it claimed against these grants were allowable,
- educate Consejo officials on Federal requirements for supporting salaries and wages, and
- ensure that Consejo (1) develops written procedures for determining the allowability of expenditures and (2) maintains personnel activity reports for each employee who works on Federal awards.

CONSEJO DE SALUD DE PUERTO RICO, INC., COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE

In written comments on our draft report, Consejo disagreed with our first recommendation and generally agreed with our remaining recommendations. Further, Consejo requested time to provide additional documentation through “alternate methods” to validate that the \$1,591,864 in salary and fringe benefit costs were allowable. Consejo subsequently clarified that the additional documentation consisted of after-the-fact personnel activity reports prepared after our fieldwork and sworn statements from its employees. Since the additional documentation was created subsequent to our review, we did not grant Consejo’s request for time to submit the additional documentation. Consejo’s comments are included as Appendix A.

HEALTH RESOURCES AND SERVICES ADMINISTRATION COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE

In written comments on our draft report, HRSA concurred with our recommendations. HRSA’s comments are included in their entirety as Appendix B.

APPENDIXES

APPENDIX A: CONSEJO DE SALUD DE PUERTO RICO, INC., COMMENTS



DRA. AWILDA GARCÍA, MD
DIRECTOR MÉDICO

LCDO. ALLAN CINTRÓN SALICHS, MBA, MHCM
DIRECTOR EJECUTIVO

June 15, 2012

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Regional Inspector General for Audit Services
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26 FEDERAL PLAZA, ROOM 3900
NEW YORK, NY 10278

Certified Letter # 7008 3230 0000 2478 0385

REF: Report Number A-02-11-02011

We acknowledge as of June 13, 2013, the receipt of your letter dated June 12, 2012, regarding the enclosed U.S. Department of Health and Human Services, Office of Inspector General (OIG), draft report entitled Consejo de Salud de Puerto Rico Did Not Always Claim Recovery Act Costs in Accordance With Federal Requirements. As stated, to properly consider our views on the validity of the facts, it is request that we provide you with written comments within 5 business days from the date of aforementioned letter.

Facts according to the draft report indicate that HRSA awarded Consejo de Salud de Puerto Rico \$2,148,540 under a CIP grant to make improvements to existing facilities, and a total of \$2,051,212 was awarded under NAP and IDS grants to increase access and reduce barriers to health care within Consejo's service area. Also, as per the draft report, out of the \$2,548,872 in costs that were reviewed, Consejo claimed \$957,008 in costs that were allowable under the terms of the grant and applicable Federal requirements. However, it is also stated that the remaining \$1,591,864 in salary and fringe benefit costs were unable to be determined if were allowable because Consejo did not prepare personnel activity reports for employees whose time was charged to the grant. Consequently the referred draft report recommends that HRSA:

1. either require Consejo to refund \$1,591,864 to the Federal Government (\$878,274 related to the NAP grant and \$713,590 related to the IDS grant) or work with Consejo to determine whether any of the costs that it claimed against these grants were allowable,
2. educate Consejo officials on Federal requirements for supporting salaries and wages, and
3. ensure that Consejo (1) develops written procedures for determining the allowability of expenditures and (2) maintains personnel activity reports for each employee who works on Federal awards.

Regarding point number one we strongly believe to have factual merits through alternate methods to validate that all remaining \$1,591,864 in salary and fringe benefit costs were de facto allowable. Furthermore, we have learned that none of the CIP, NAP, IDS HRSA funded projects in Puerto Rico and

many across the nation have not complied with documenting as it is requested in the draft report. By stating this we do not pretend to neither waive a compliance issue neither lead to infer that funding was not properly used for allowable costs. However, we reasonably believe that a knowledge or intrinsic documenting difficulty to comply toward the compliance issue is of general existence. Moreover, during a recent (this year) continuous education session for Certified Public Accountants by Aquino, De Cordoba, Alfaro & Co, LLP it was stated under Section B – Reform To Cost Principles; Line Item “C” – Exploring Alternatives to Time-and-effort Reporting Requirements for Salaries and Wages:

(Quote)

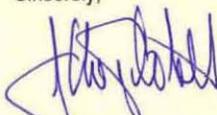
This reform idea would involve working with the Federal grant and Inspector General (IG) communities to identify risks associated with justification for salaries and wages and to identify possible alternative mechanisms for addressing those risks beyond current time-and-effort reporting requirement.

Regarding points number two and three we express our willingness to learn more and be in full compliance with the Federal government expectations.

Accordingly, should we have to refund the amount of \$1,591,864 it will have a serious adverse impact on the clinical delivery to the population we serve. **As we strongly believe that we may provide factual merits through alternate methods to validate the usage of such funding as allowable use of federal funds. Thus, we respectfully request that we are granted an extension of 60 days to provide the information that will allow you to properly consider our views on the validity of the facts.**

The consideration you may provide to our request will be greatly appreciated. We are a community based organization that acknowledges the importance of procedures to be followed and is eager to be a prime example of excellence.

Sincerely,



Allan Cintrón-Salichs, MBA, MHCA
Executive Director

Cc: Glenn H. Richter, Audit Manager; DHHS / OIG

Francisco Bayanilla, MBA – Finance and Accounting Director Officer

**APPENDIX B: HEALTH RESOURCES AND SERVICES
ADMINISTRATION COMMENTS**



DEPARTMENT OF HEALTH & HUMAN SERVICES

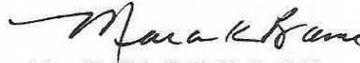
Health Resources and Services
Administration

Rockville, MD 20857

AUG 23 2012

TO: Inspector General
FROM: Administrator
SUBJECT: OIG Draft Report: "Consejo de Salud de Puerto Rico, Inc., Did Not Always Claim Recovery Act Costs in Accordance with Federal Requirements" (A-02-11-02011)

Attached is the Health Resources and Services Administration's (HRSA) response to the OIG's draft report, "Consejo de Salud de Puerto Rico, Inc., Did Not Always Claim Recovery Act Costs in Accordance with Federal Requirements" (A-02-11-02011). If you have any questions, please contact Sandy Seaton in HRSA's Office of Federal Assistance Management at (301) 443-2432.


Mary K. Wakefield, Ph.D., R.N.

Attachment

**Health Resources and Services Administration's Comments on the OIG Draft Report –
"Consejo de Salud de Puerto Rico, Inc., Did Not Always Claim Recovery Act Costs in
Accordance with Federal Requirements" (A-02-11-02011)**

The Health Resources and Services Administration (HRSA) appreciates the opportunity to respond to the above draft report. HRSA's response to the Office of Inspector General (OIG) draft recommendations are as follows:

OIG Recommendation to HRSA:

We recommend that HRSA either require Consejo to refund \$1,591,864 to the Federal Government (\$878,274 related to the NAP grant and \$713,590 related to the IDS grant) or work with Consejo to determine whether any of the costs that it claimed against these grants were allowable.

HRSA Response:

HRSA concurs with the OIG recommendation and will work with the grantee to determine if any American Recovery and Reinvestment Act (ARRA) grant funds need to be refunded.

OIG Recommendation to HRSA:

We recommend that HRSA educate Consejo officials on Federal requirements for supporting salaries and wages.

HRSA Response:

HRSA concurs with the OIG recommendation and will work with the grantee to educate Consejo officials on federal requirements for supporting salaries and wages.

OIG Recommendation to HRSA:

We recommend that HRSA ensure that Consejo (1) develops written procedures for determining the allowability of expenditures; and (2) maintains personnel activity reports for each employee who works on Federal awards.

HRSA Response:

HRSA concurs with the OIG recommendation and will work with the grantee to establish a financial system to improve its tracking of HRSA grants.
