

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**EAST HARLEM COUNCIL FOR HUMAN
SERVICES, INC., COMPLIED WITH
FEDERAL REQUIREMENTS RELATED TO
ITS AFFORDABLE CARE ACT-FUNDED
COMMUNITY HEALTH CENTER FUND
GRANT**

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Office of Inspector General

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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.

East Harlem Council for Human Services, Inc., complied with applicable Federal requirements and grant terms related to its Affordable Care Act-funded capital development grant.

INTRODUCTION

WHY WE DID THIS REVIEW

The Affordable Care Act (ACA)¹ established a Community Health Center Fund administered by the Health Resources and Services Administration (HRSA) that provides \$11 billion in grant funds for the operation, expansion, and construction of community health centers nationwide. HRSA awarded East Harlem Council for Human Services, Inc. (East Harlem), a not-for-profit organization that operates a health center, \$12 million of these funds to renovate a five-story building in New York, New York.

As part of its ACA oversight activities, the Office of Inspector General is conducting a series of reviews of certain grants awarded under the Community Health Center Fund because of the risks often associated with expansion and construction projects.

OBJECTIVE

Our objective was to determine whether East Harlem complied with applicable Federal requirements and grant terms related to its ACA-funded capital development grant.

BACKGROUND

The Health Center Program

The Health Center Program is authorized under section 330 of the Public Health Service Act (42 U.S.C. § 254b). The Health Center Program provides primary health care services to medically underserved communities and vulnerable populations with limited access to health care through planning and operating grants to health centers. Within the U.S. Department of Health and Human Services (HHS), HRSA administers the health center program.

The Affordable Care Act Funding of Community Health Centers

Section 10503 of the ACA established a Community Health Center Fund that provides \$11 billion over a 5-year period (Federal fiscal years (FYs) 2011 through 2015) for the operation, expansion, and construction of community health centers nationwide.²

¹ The Patient Protection and Affordable Care Act, P.L. No. 111-148 (Mar. 23, 2010), as amended by the Health Care and Education Reconciliation Act of 2010, P.L. No. 111-152 (Mar. 30, 2010), is known as the Affordable Care Act.

² Of this amount, \$9.5 billion was targeted to support ongoing community health center operations, create new community health center sites, and expand preventive and primary health care services at existing community health center sites. The remaining \$1.5 billion was targeted to support major construction and renovation projects at community health centers.

In FYs 2011 through 2014, HRSA awarded approximately \$1.5 billion in Capital Development Grant funding to health centers. Capital development grants were available to address immediate and urgent capital needs or to support alteration/renovation or construction costs for facilities that provide health services to medically underserved communities and vulnerable populations. The grants are one-time awards, with no additional funding provided for operations.

East Harlem Council for Human Services, Inc.

East Harlem, a not-for-profit organization, established the Boriken Neighborhood Health Center, a Federally Qualified Health Center (FQHC),³ to provide comprehensive medical, dental, health education, and social services to the residents of the East Harlem section of New York City. HRSA awarded East Harlem a \$12 million capital development grant under the ACA for the period October 1, 2010, through May 31, 2014, to renovate a five-story building that East Harlem had previously purchased across the street from its health center to relocate and expand its services. In its grant application, East Harlem projected that the new health center would annually provide care for 15,229 patients covering 76,517 medical visits.⁴ East Harlem began providing services at the new health center site on July 1, 2014.

By accepting Community Health Center Fund grant funds, East Harlem agreed to submit updates on its grant-related activities and required reports to HRSA, including status reports on grant-established milestone construction dates and financial activities.

See Appendix A for details on the Federal requirements related to grants awarded to community health centers.

HOW WE CONDUCTED THIS REVIEW

We reviewed capital development costs of \$12 million, the full amount of the grant awarded by HRSA on October 6, 2010, that East Harlem claimed for the period March 1, 2012, through August 31, 2013. Specifically, we reviewed whether East Harlem (1) had adequate financial management controls over capital development grant funds, (2) followed procurement standards in accordance with Federal requirements for contracts, (3) claimed allowable costs, and (4) met grant-established project milestone dates.

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.

³ FQHCs are public and private nonprofit health care organizations receiving grants under section 330 of the Public Health Service Act. FQHCs qualify for enhanced reimbursement from Medicare and Medicaid, as well as other benefits. FQHCs must serve an underserved area or population, offer a sliding fee scale, provide comprehensive services, have an ongoing quality assurance program, and have a governing board of directors.

⁴ In August 2014, East Harlem submitted new projections in its FY 2015 Non-Competing Continuation Application to HRSA for 12,485 patients and 57,809 annual visits.

Appendix B contains the details of our audit scope and methodology.

RESULTS OF REVIEW

East Harlem complied with applicable Federal requirements and grant terms related to its ACA-funded capital development grant. Specifically, East Harlem had adequate financial management controls over capital development grant funds, followed procurement standards in accordance with Federal requirements, met reporting requirements in accordance with the grant's terms and conditions, claimed allowable costs for construction, and generally met grant-established project milestone dates. Accordingly, this report contains no recommendations.

APPENDIX A: FEDERAL REQUIREMENTS FOR COMMUNITY HEALTH CENTER GRANTEES

Regulations at 45 CFR § 74.27(a) require that the allowability of costs of a nonprofit organization in receipt of Federal funds be determined in accordance with OMB Circular A-122, *Cost Principles for Non-Profit Organizations* (codified at 2 CFR part 230). To be allowable, costs must be reasonable and allocable (2 CFR part 230, App. A., section A.2.a.). The grantee must also comply with the requirements for health centers in 42 U.S.C. § 254b and implementing regulations at 42 CFR part 51c.

Regulations (45 CFR § 74.21(b)(6)) require grantees to have written procedures for determining the reasonableness, allocability, and allowability of costs in accordance with applicable Federal cost principles and the terms and conditions of the award.

Regulations (45 CFR § 74.21(b)(1)) require grantees to maintain financial management systems that provide accurate, current, and complete disclosure of the financial results of each HHS-sponsored project or program. The systems should also provide effective control over and accountability for all funds, property, and other assets. Grantees must adequately safeguard all such assets and assure that they are used solely for authorized purposes (45 CFR § 74.21(b)(3)). The systems must also provide accounting records that are supported by source documentation (45 CFR § 74.21(b)(7)). Grantees must maintain records that adequately identify the source and uses of funds for sponsored activities (45 CFR § 74.21(b)(2)).

Regulations (45 CFR § 74.43) require that all procurement transactions be conducted in a manner to provide, to the maximum extent practical, open and free competition.

Regulations (42 CFR § 51c.112(a)) require that all grant award payments be recorded by the grantee in accounting records separate from the records of all other funds, including funds derived from other grant awards. For each project, the grantee must account for the total of all amounts paid, as well as other funds and in-kind contributions, by presenting satisfactory evidence of expenditure for direct and indirect costs.

APPENDIX B: AUDIT SCOPE AND METHODOLOGY

SCOPE

We reviewed capital development costs totaling \$12 million, the full amount of the grant awarded by HRSA on October 6, 2010, that East Harlem claimed for the period March 1, 2012, through August 31, 2013. Specifically, we reviewed whether East Harlem (1) had adequate financial management controls over capital development grant funds, (2) followed procurement standards in accordance with Federal requirements for contracts, (3) claimed allowable costs, and (4) met grant-established project milestone dates.

We did not review the overall internal control structure of East Harlem or HRSA's grant management program. Rather, we reviewed only those controls related to our objective.

We performed fieldwork at East Harlem's office in New York, New York, from July 2014 to February 2015.

METHODOLOGY

To accomplish our objective, we:

- reviewed applicable Federal laws, regulations, and guidance;
- met with HRSA officials to gain an understanding of the ACA community health center program and funding requirements;
- met with East Harlem officials to gain an understanding of East Harlem's accounting system, policies, and procedures for managing Federal grant funds and health center grant activities;
- obtained and reviewed East Harlem's ACA capital development grant application package, approved design documents and timeline for project completion, Notice of Grant Award documents, and applicable amendments;
- reviewed East Harlem's financial management controls, procurement policies and procedures, and construction contracts;
- reviewed costs totaling \$12 million claimed on grant expenditure reports to determine whether the costs were allowable for reimbursement;
- compared budgeted amounts to actual grant expenditures and analyzed discrepancies;
- identified any costs transferred to or from the grant;
- determined whether East Harlem met established milestone dates for project completion;

- reviewed East Harlem’s progress toward meeting its projected increases in patient capacity and delivery of health services;
- determined whether health services were provided as outlined by the grant’s terms; and
- discussed the results of our review with East Harlem 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.