

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**MILWAUKEE HEALTH SERVICES,
INC., CLAIMED UNALLOWABLE
COSTS UNDER HEALTH
RESOURCES AND SERVICES
ADMINISTRATION GRANTS**

*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

April 2013
A-05-12-00015

Office of Inspector General

<https://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 and 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.

Office of Evaluation and Inspections

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.

Office of Investigations

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.

Office of Counsel to the Inspector General

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 <https://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

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 (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. HRSA requested this review.

The Health Center Program provides grants to nonprofit private or public entities that serve designated medically underserved populations and areas, as well as vulnerable populations of migrant and seasonal farm workers, the homeless, and residents of public housing. These grants are commonly referred to as “section 330 grants.”

American Recovery and Reinvestment Act Grants

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 Increased Demand for Services (IDS) and Capital Improvement Program (CIP) grants.

Milwaukee Health Services, Inc.

Milwaukee Health Services, Inc. (MHSI) is a nonprofit organization formed in September 1989. MHSI’s mission is to provide accessible, quality, primary and related health care services to residents of Milwaukee, Wisconsin, with an emphasis on medically underserved families and individuals. MHSI operates three sites located throughout the service area and offers a range of primary health care services including physician, dental, behavioral, and pharmacy.

HRSA provided and MHSI claimed section 330 grant costs totaling \$5,935,960 from February 1, 2007, through January 31, 2011; Recovery Act costs of \$453,496 for an IDS grant from March 27, 2009, through March 26, 2011; and \$1,304,515 for a CIP grant from June 29, 2009, through June 28, 2011, totaling \$7,693,971.

Federal Requirements for Grantees

The Code of Federal Regulations (CFR), at 45 CFR pt. 74, establishes uniform administrative requirements governing HHS awards to nonprofit organizations, institutions of higher education, hospitals, and commercial entities. As a nonprofit organization that receives Federal funds, MHSI must comply with the Federal cost principles in 2 CFR pt. 230, *Cost Principles for Non-Profit Organizations* (Office of Management and Budget Circular A-122), incorporated by

reference at 45 CFR § 74.27(a). To be determined allowable, costs must meet the criteria in those Federal cost principles. The HHS awarding agency may include additional requirements that are necessary to attain the award's objectives.

OBJECTIVE

Our objective was to determine whether costs claimed by MHSI were allowable under the terms of the grants and applicable Federal regulations.

SUMMARY OF FINDINGS

Of the \$7,693,971 in costs covered by our review, MHSI claimed \$1,758,011 of Recovery Act costs that were allowable under the terms of the IDS and CIP grants and applicable Federal requirements. We could not determine the allowability of \$5,935,960 in costs that consisted of salary, wage, and fringe benefit costs that MHSI charged against its section 330 grant. Specifically, MHSI did not maintain a financial management system that adequately identified the source and application of section 330 grant costs and did not adequately support, with personnel activity reports, the distribution of salaries and wages. MHSI did not have policies and procedures to ensure that the use of grant funds complied with Federal requirements. As a result, Federal funds were at risk of not being properly accounted for or used in accordance with Federal requirements.

In 2010, MHSI discovered and we verified that \$754,731 of income earned under the section 330 grant—"program income"—was misappropriated. (A former accounts payable employee, who is now residing outside of the United States, misappropriated the funds.) Program income in a section 330 grant may be used only for costs that are permitted under law and further the objectives of the project. The \$754,731 of misappropriated program income was not a cost permitted by law and did not further the objectives of the project. Therefore, it is not a cost that is allowable under section 330 and MHSI's Notice of Grant Award.

RECOMMENDATIONS

We recommend that HRSA:

- either require MHSI to refund \$5,935,960 to the Federal Government or work with MHSI to determine whether any of these costs were allowable,
- work with MHSI to ensure that any monetary recoveries related to the misappropriation of \$754,731 is applied to services and activities consistent with the scope of the health center program,
- impose special award conditions on MHSI so that it takes corrective actions to ensure that:
 - financial records adequately identify the source and application of Federal program funds,

- personnel activity reports for employees working on Federal awards are maintained, and
- segregation of duties is adequate to safeguard assets.

GRANTEE COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE

In written comments on our draft report, the grantee did not dispute the validity of our findings and described actions it is taking or plans to take to address our recommendations. We have not reviewed the grantee's actions and take no position as to their adequacy and effectiveness.

HEALTH RESOURCES AND SERVICES ADMINISTRATION COMMENTS

In written comments on our draft report, HRSA concurred with our recommendations.

TABLE OF CONTENTS

	<u>Page</u>
INTRODUCTION	1
BACKGROUND	1
The Health Center Program	1
American Recovery and Reinvestment Act Grants	1
Milwaukee Health Services, Inc.	1
Federal Requirements for Grantees	1
Special Award Conditions	2
OBJECTIVE, SCOPE, AND METHODOLOGY	2
Objective.....	2
Scope.....	2
Methodology.....	2
FINDINGS AND RECOMMENDATIONS	3
POTENTIALLY UNALLOWABLE GRANT COSTS	4
Federal Requirements	4
Inadequate Financial Management System	4
Inadequate Payroll Distribution Process.....	5
PROGRAM INCOME	5
RECOMMENDATIONS	6
GRANTEE COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE	6
HEALTH RESOURCES AND SERVICES ADMINISTRATION COMMENTS ...	6
APPENDIXES	
A: GRANTEE COMMENTS	
B: HEALTH RESOURCES AND SERVICES ADMINISTRATION COMMENTS	

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 (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 Health Center Program provides grants to nonprofit private or public entities that serve designated medically underserved populations and areas, as well as vulnerable populations of migrant and seasonal farm workers, the homeless, and residents of public housing. These grants are commonly referred to as “section 330 grants.”

American Recovery and Reinvestment Act Grants

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 Increased Demand for Services (IDS) and Capital Improvement Program (CIP) grants.

Milwaukee Health Services, Inc.

Milwaukee Health Services, Inc. (MHSI) is a nonprofit organization formed in September 1989. MHSI’s mission is to provide accessible, quality, primary and related health care services to residents of Milwaukee, Wisconsin, with an emphasis on medically underserved families and individuals. MHSI operates three sites located throughout the service area and offers a range of primary health care services including physician, dental, behavioral, and pharmacy.

HRSA provided and MHSI claimed section 330 grant costs totaling \$5,935,960 from February 1, 2007, through January 31, 2011; Recovery Act costs of \$453,496 for an IDS grant from March 27, 2009, through March 26, 2011; and \$1,304,515 for a CIP grant from June 29, 2009, through June 28, 2011, totaling \$7,693,971.

Federal Requirements for Grantees

The Code of Federal Regulations (CFR), at 45 CFR pt. 74, establishes uniform administrative requirements governing HHS awards to nonprofit organizations, institutions of higher education, hospitals, and commercial entities. As a nonprofit organization that receives Federal funds,

MHSI must comply with the Federal cost principles in 2 CFR pt. 230, *Cost Principles for Non-Profit Organizations* (Office of Management and Budget Circular A-122), incorporated by reference at 45 CFR § 74.27(a). To be determined allowable, costs must meet the criteria in those Federal cost principles. The HHS awarding agency may include additional requirements that are considered necessary to attain the award’s objectives.

Special Award Conditions

Pursuant to 45 CFR § 74.14, HRSA may impose additional requirements if a grant recipient has a history of poor performance, is not financially stable, does not have a financial management system that meets Federal standards, has not conformed to the terms and conditions of a previous award, or is not otherwise responsible.

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

Our objective was to determine whether costs claimed by MHSI were allowable under the terms of the grants and applicable Federal regulations.

Scope

MHSI claimed the full amount of the following grant awards during our review period of February 1, 2007, through June 28, 2011:

Grant	Grant Performance Period	Grant Award
Section 330	February 1, 2007, through January 31, 2011	\$5,935,960
IDS	March 27, 2009, through March 26, 2011	\$453,496
CIP	June 29, 2009, through June 28, 2011	<u>\$1,304,515</u>
Total		\$7,693,971

We reviewed \$7,693,971 (100 percent) of costs claimed by the grantee. We performed this limited scope review in response to a request from HRSA. We limited our review of internal controls to those that pertained directly to our objective.

We performed our fieldwork at MHSI in Milwaukee, Wisconsin, during December 2011.

Methodology

To accomplish our objective, we:

- reviewed applicable Federal laws, regulations, and guidance;
- reviewed grant announcements, grant applications, and notices of grant awards;

- reviewed MHSI’s bylaws, minutes from board of directors meetings, and organizational chart;
- reviewed MHSI’s policies and procedures, including, but not limited to, procurement policies, purchase order procedures, protection of corporate assets, and monitoring and reporting financial status;
- reviewed MHSI’s audited and unaudited financial statements and supporting documentation;
- held discussions with MHSI officials about policies, procedures, and methodology for claiming Federal funds;
- identified, in MHSI’s accounting records, funds expended for each award period;
- reconciled grant drawdowns with grant expenditures;
- reconciled grant expenditures, per accounting records, with Federal reports;
- compared budgeted and actual costs; and
- reviewed costs claimed under the grants to determine if they were allowable.

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 \$7,693,971 in costs covered by our review, MHSI claimed \$1,758,011 of Recovery Act costs that were allowable under the terms of the IDS and CIP grants and applicable Federal requirements. We could not determine the allowability of \$5,935,960 in costs that consisted of salary, wage, and fringe benefit costs that MHSI charged against its section 330 grant. Specifically, MHSI did not maintain a financial management system that adequately identified the source and application of section 330 grant costs and did not adequately support, with personnel activity reports, the distribution of salaries and wages. MHSI did not have policies and procedures to ensure that the use of grant funds complied with Federal requirements. As a result, Federal funds were at risk of not being properly accounted for or used in accordance with Federal requirements.

In 2010, MHSI discovered and we verified that \$754,731 of income earned under the section 330 grant—“program income”—was misappropriated. (A former accounts payable employee, who is now residing outside of the United States, misappropriated the funds.) Program income in a section 330 grant may be used only for costs that are permitted under law and further the

objectives of the project. The \$754,731 of misappropriated program income was not a cost permitted by law and did not further the objectives of the project. Therefore, it is not a cost that is allowable under section 330 and MHSI's Notice of Grant Award.

POTENTIALLY UNALLOWABLE GRANT COSTS

Federal Requirements

Pursuant to 45 CFR § 74.21(b), grantees must maintain financial management systems that provide for, among other things:

- accurate, current, and complete disclosure of the financial results of each HHS-sponsored project or program in accordance with the reporting requirements in 45 CFR § 74.52;
- records that identify adequately the source and application of funds for HHS-sponsored activities; and
- written procedures for determining the allowability of costs in accordance with the provisions of the applicable Federal cost principles and the terms and conditions of the award.

According to 2 CFR pt. 230, Appendix A, § A.2.g., “[t]o be allowable under an award, costs must ... [b]e adequately documented.” Additionally, 2 CFR pt. 230, Appendix B, § 8.m(1) states that the distribution of salaries and wages must be supported by personnel activity reports, unless the cognizant agency (the Federal agency responsible for negotiating and approving indirect cost rates) has approved a substitute system in writing. Nonprofit organizations must maintain personnel activity reports that meet the standards in 2 CFR pt. 230, Appendix B, § 8.m(2)(a)-(d). The reports must:

- reflect an after-the-fact determination of the actual activity of each employee,
- account for the total activity for which each employee is compensated,
- be signed by the employee or by a responsible supervisory official having firsthand knowledge of the activities performed, and
- be prepared at least monthly and coincide with one or more pay periods.

Inadequate Financial Management System

MHSI's financial management system did not separately account for all of its Federal grant funds. MHSI's financial management system did not provide accurate, current, and complete disclosure of financial results and did not maintain records that identify the source and application of funds for HHS-sponsored activities, as required by 45 CFR § 74.21(b).

For example, MHSI generally drew down section 330 grant funds on a monthly basis and used the funds for payroll purposes. At the time of each drawdown, MHSI recorded the receipt of grant funds in its accounting system. However, MHSI did not separately account for the use of section 330 grant funds in its accounting system each pay period. We were unable to confirm which portion of the \$5,935,960 of MHSI's payroll costs was funded through the section 330 grant and which was funded by other sources. As a result, we could not determine whether these costs were allowable.

Inadequate Payroll Distribution Process

MHSI claimed \$5,935,960 in salary, wage, and fringe benefit costs that were not supported by personnel activity reports. MHSI's financial management system did not separately account for the use of Federal grant funds, section 330 grant payroll, and fringe benefit costs. MHSI's payroll distribution process did not provide an after-the-fact determination of actual activity performed by employees for the period February 1, 2007, through January 31, 2011, as required by 2 CFR pt. 230, Appendix B, § 8.m.

MHSI did not have policies and procedures to ensure that its payroll distribution process (1) resulted in an allocation that reflected actual work performed by staff at least on a monthly basis and (2) identified and segregated non-Federal activity. As a result, we could not determine whether the \$5,935,960 that MHSI charged to its section 330 grant for salaries, wages, and fringe benefits was allowable under the terms of the grants and applicable Federal regulations.

PROGRAM INCOME

Pursuant to 45 CFR § 74.2, program income is defined as gross income earned by the recipient that is directly generated by a supported activity or earned as a result of the award. Program income includes, but is not limited to, income from fees for services performed. Under a section 330 grant, non-grant funds, such as program income, may be used to further the objectives of the project (42 U.S.C. § 254b(e)(5)(D)). Specifically, MHSI's Notice of Grant Awards states that program income "shall be used as permitted under the law and may be used for such other purposes as are not specifically prohibited under the law if such use further[s] the objectives of the project."

Program income earned for services performed under MHSI's section 330 grant was deposited into the organization's primary operating checking account. Following an internal investigation in December 2010, MHSI officials discovered that a former accounts payable employee, now residing outside of the United States, had misappropriated organizational funds during the period May 2008 through September 2010. The misappropriated funds were drawn from the organization's primary operating checking account. (MHSI officials reported the misappropriation to the Milwaukee police department and later to HRSA.)

We have documented the misappropriated MHSI funds totaling \$754,731. MHSI lacked adequate segregation of duties to ensure that no employee had complete control over all phases of a process or transaction. The \$754,731 of misappropriated program income was not a cost

permitted by law and did not further the objectives of the project. Therefore, it is not a cost that is allowable under section 330 and MHSI's Notice of Grant Awards.

RECOMMENDATIONS

We recommend that HRSA:

- either require MHSI to refund \$5,935,960 to the Federal Government or work with MHSI to determine whether any of these costs were allowable,
- work with MHSI to ensure that any monetary recoveries related to the misappropriation of \$754,731 is applied to services and activities consistent with the scope of the health center program,
- impose special award conditions on MHSI so that it takes corrective actions to ensure that:
 - financial records adequately identify the source and application of Federal program funds,
 - personnel activity reports for employees working on Federal awards are maintained, and
 - segregation of duties is adequate to safeguard assets.

GRANTEE COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE

In written comments on our draft report, the grantee did not dispute the validity of our findings and described actions it is taking or plans to take to address our recommendations. We have not reviewed the grantee's actions and take no position as to their adequacy and effectiveness. The grantee's comments, excluding the attachments, are included as Appendix A. The attachments to the grantee's comments are excluded because they contain sensitive information.

HEALTH RESOURCES AND SERVICES ADMINISTRATION COMMENTS

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: GRANTEE COMMENTS



MLK - Heritage Health Center

Your Health is Our Business

Isaac Coggs Health Connection Est. 1989

December 18, 2012

Ms. Sheri L. Fulcher
Regional Inspector General for Audit Services
Department of Health and Human Services
Office of Inspector General
Office of Audit Services, Region V
233 North Michigan, Suite 1360
Chicago, IL 60601

Re: Report Number A-05-12-00015

Dear Ms. Fulcher:

In response to the report dated December 14, 2012 for the above – referenced report number, our comments related to the findings of the report are as follows.

Finding – Determination of Allowability (page 3):

Of the \$7,693,971 in costs covered by our review, MHSI claimed \$1,758,011 of Recovery Act costs that were allowable under the terms of the IDS and CIP grants and applicable Federal requirements. We could not determine the allowability of \$5,935,960 in costs that consisted of salary, wage, and fringe benefit costs that MHSI charged against its section 330 grant. Specifically, MHSI did not maintain a financial management system that adequately identified the source and application of section 330 grant costs and did not adequately support, with personnel activity reports, the distribution of salaries and wages. MHSI did not have policies and procedures to ensure that the use of grant funds complied with Federal requirements. As a result, Federal funds were at risk of not being properly accounted for or used in accordance with Federal requirements.

MHSI Response:

We had the mistaken understanding that an annual allocation was sufficient. We had since learned that, minimally, monthly allocations are required. Given the limited staffing and financial resources, frequent allocation calculations can be cumbersome and time consuming for staff members; however we will continue developing a more efficient

allocation methodology in the future. In addressing this finding, we have created a system whereby we calculate the percent of salaries to be allocated to the grant based upon the percentage of sliding fee patients.

Finding – Misappropriation of Funds (pages 3-4):

In 2010, MHSI discovered and we verified that \$754,731 of income earned under the section 330 grant – “program income” – was misappropriated. (A former accounts payable employee, who is now residing outside of the United States, misappropriated the funds.) Program income in a section 330 grant may be used only for costs that are permitted under law and further the objectives of the project. The \$754,731 of misappropriated program income was not a cost permitted by law and did not further the objectives of the project. Therefore, it is not a cost that is allowable under section 330 and MHSI’s Notice of Grant Award.

MHSI Response:

A summary of our initial response to the misappropriation of funds is attached in a letter dated January 9, 2012 from the Comptroller to the Chief Financial Officer. We have since recovered \$92,000 and are seeking the recovery of additional funds. As we recover the funds, they are applied toward program income. The funds will be deposited into the payroll bank account to be used to reimburse for payroll already paid. A warrant for arrest is placed upon the accused, however, because that person is believed to reside outside of the United States, the arrest has not yet occurred.

Finding – Inadequate Financial Management System (pages 4-5):

MHSI’s financial management system did not separately account for all of its Federal grant funds...For example, MHSI generally drew down section 330 grant funds on a monthly basis and used the funds for payroll purposes. At the time of each drawdown, MHSI recorded the receipt of grant funds in its accounting system. However, MHSI did not separately account for the use of section 330 grant funds in its accounting system, each pay period. We were unable to confirm which portion of the \$5,935,960 of MHSI’s payroll costs was funded through the section 330 grant and which was funded by other sources. As a result, we could not determine whether these costs were allowable.

MHSI Response:

We had the mistaken understanding that an annual allocation was sufficient. We had since learned that, minimally, monthly allocations are required. Given the limited staffing and financial resources, frequent allocation calculations can be cumbersome and time consuming for staff members; however we will continue developing a more efficient allocation methodology in the future. In addressing this finding, we have created a system whereby we calculate the percent of salaries to be allocated to the grant based upon the percentage of sliding fee patients and will record the allocated transaction in the accounting system as such.

Finding – Inadequate Payroll Distribution Process (page 5):

MHSI claimed \$5,935,960 in salary, wage, and fringe benefit costs that were not supported by personnel activity reports. MHSI's financial management system did not separately account for the use of Federal grant funds, section 330 grant payroll and fringe benefit costs. MHSI's payroll distribution process did not provide an after-the-fact determination of actual activity performed by employees for the period February 1, 2007 through January 31, 2011...MHSI did not have policies and procedures to ensure that its payroll distribution process (1) resulted in an allocation that reflected actual work performed by staff at least on a monthly basis and (2) identified and segregated non-Federal activity. As a result, we could not determine whether the \$5,935,960 that MHSI charged to its section 330 grant for salaries, wages and fringe benefits was allowable under the terms of the grants and applicable Federal regulations.

MHSI Response:

Please note the response to the previous finding.

During the audit, a manual allocation of the salaries and wages with a percentage calculated for fringe benefits was, in fact, provided during the audit, however the allocation based upon a percentage of insured patients was performed at the end of the fiscal year. We are making every attempt to determine an appropriate basis and methodology that can be reasonably performed with the limited staff available. Our payment management system confirms each provider's schedule and captures the arrival of all patients. Based upon this information, the allocations are performed on a monthly basis based upon the percentage of self-pay charges in the prior month.

Finding – Program Income (pages 5-6):

We have documented the misappropriated MHSI funds totaling \$754,731. MHSI lacked adequate segregation of duties to ensure that no employee had complete control over all phases of a process or transaction. The \$754,731 of misappropriated program income was not a cost permitted by law and did not further the objectives of the project. Therefore, it is not a cost that is allowable under section 330 and MHSI's Notice of Grant Awards.

MHSI Response:

An internal controls review and assessment was performed by an external auditing firm in October 2011. The findings and MHSI responses are found in the attached document.

Please contact me or Leana Henderkott, Comptroller at (414) 267-2612 or at lhenderkott@mhsi.org with any further questions or concerns.

Sincerely,



Tito Izard, MD
President & CEO
(414) 267-2021
tizard@mhsi.org

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



DEPARTMENT OF HEALTH & HUMAN SERVICES

Health Resources and Services
Administration

Rockville, MD 20857

FEB 27 2013

TO: Inspector General

FROM: Administrator

SUBJECT: OIG Draft Report: "Milwaukee Health Services, Inc., Claimed Unallowable Costs Under Health Resources and Services Administration Grants" (A-05-12-00015)

Attached is the Health Resources and Services Administration's (HRSA) response to the OIG's draft report, "Milwaukee Health Services, Inc., Claimed Unallowable Costs Under Health Resources and Services Administration Grants" (A-05-12-00015). If you have any questions, please contact Sandy Seaton in HRSA's Office of Federal Assistance Management at (301) 443-2432.

A handwritten signature in cursive script, appearing to read "Mary K. Wakefield".

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

Attachment

**Health Resources and Services Administration's Comments on the OIG Draft Report –
"Milwaukee Health Services, Inc., Claimed Unallowable Costs Under Health Resources
and Services Administration Grants" (A-05-12-00015)**

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:

We recommend that HRSA either require MHSI to refund \$5,935,960 to the Federal Government or work with MHSI to determine whether any of these costs were allowable.

HRSA Response:

HRSA concurs with OIG's recommendation. HRSA will work with Milwaukee Health Services, Inc., (MHSI) to determine the amount of unallowable costs charged against the HRSA grants.

OIG Recommendation:

We recommend that HRSA work with MHSI to ensure that any monetary recoveries related to the misappropriation of \$754,731 is applied to services and activities consistent with the scope of the health center program.

HRSA Response:

HRSA concurs with OIG's recommendation. HRSA will work with MHSI to ensure that any monetary recoveries related to misappropriated funds are applied to health center scope-related activities.

OIG Recommendation:

We recommend that HRSA impose special award conditions on MHSI so that it takes corrective actions to ensure that:

- financial records adequately identify the source and application of Federal program funds,
- personnel activity reports for employees working on Federal awards are maintained, and
- segregation of duties is adequate to safeguard assets.

HRSA Response:

HRSA concurs with OIG's recommendation. HRSA will place special conditions on MHSI's award to require the corrective actions related to financial records, personnel activity reports, and segregation of duties.