



August 18, 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 Northwest Health Services, Inc.
(A-07-10-03142)

The attached final report provides the results of our review of Northwest Health Services, 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-07-10-03142 in all correspondence.

Attachment

Department of Health & Human Services

**OFFICE OF
INSPECTOR GENERAL**

**RESULTS OF
LIMITED SCOPE REVIEW OF
NORTHWEST HEALTH
SERVICES, INC.**



Daniel R. Levinson
Inspector General

August 2010
A-07-10-03142

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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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.

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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.

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Notices

THIS REPORT IS AVAILABLE TO THE PUBLIC
at <http://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 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, 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.

Established in 1983, Northwest Health Services, Inc. (NHS), is a Federally-Qualified Health Center located in northwest Missouri. It currently serves over 30,000 patients in northwest Missouri and northeast Kansas at 16 service sites covering 10 counties. NHS offers medical services including family practice, pediatrics, internal medicine, radiology, laboratory services, dental services, pharmacy services, and mental health services.

On March 13, 2009, NHS applied for Recovery Act IDS grant funding in the amount of \$372,847 to hire three key staff positions (one physician and two nurses) as well as two part-time staff positions. According to NHS’s IDS grant application, the funding would also enable NHS to provide access to approximately an additional 1,500 residents of Buchanan County, Missouri, who are uninsured, underinsured, or enrolled in government assistance programs. On March 27, 2009, HRSA awarded NHS an IDS grant in the amount of \$372,847.

On June 2, 2009, NHS applied for Recovery Act CIP grant funding in the amount of \$1,250,090 to purchase a mobile dental vehicle and to bring telehealth services to two rural locations and one urban location. According to NHS’s CIP grant application, the funding would benefit clinic staff and patients by creating safer, updated clinics, thereby enhancing access to quality health care. On June 25, 2009, HRSA awarded NHS a CIP grant in the amount of \$1,250,090.

OBJECTIVE

Our objective was to assess NHS'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 NHS 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 NHS's financial management: lack of written cash management policies and procedures; lack of procurement procedures for solicitation of services; incomplete procurement policies and procedures for competitive bidding; and incomplete inventory record.

RECOMMENDATION

When monitoring the Recovery Act funds, we recommend that HRSA consider the information presented in this report in assessing NHS'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 on our draft report, NHS did not directly agree or disagree with our findings. NHS's comments provided more detailed information on the corrective actions that NHS had implemented or is planning to implement.

NHS's comments are included in their entirety as the appendix.

OFFICE OF INSPECTOR GENERAL RESPONSE

Nothing in NHS's written comments caused us to change either our findings or our recommendation to HRSA. The corrective actions described in NHS's comments were consistent with and relevant to our findings. Therefore, we maintain that those findings and the recommendation, as stated in our draft report, remain valid.

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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 2 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, 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.

Northwest Health Services, Inc.

Established in 1983, Northwest Health Services, Inc. (NHS), is a Federally-Qualified Health Center located in Northwest Missouri. It currently serves over 30,000 patients in northwest Missouri and northeast Kansas at 16 service sites covering 10 counties. NHS offers medical services including family practice, pediatrics, internal medicine, radiology, laboratory services, dental services, pharmacy services, and mental health services.

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who are uninsured, underinsured, or enrolled in government assistance programs. On March 27, 2009, HRSA awarded NHS an IDS grant in the amount of \$372,847.

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

We performed our fieldwork at NHS's administrative office in St Joseph, Missouri, during January 2010.

Methodology

To accomplish our objective, we:

- reviewed relevant Federal laws, regulations, and guidance, to include HRSA program and policy announcements;
- obtained and reviewed NHS's HRSA grant application packages and supporting documentation;
- interviewed NHS personnel to gain an understanding of its accounting systems and internal controls;
- reviewed NHS's fiscal procedures related to accounting documentation and preparation of financial reports;
- reviewed NHS's financial statements for fiscal years (FY) 2006 through 2010;
- reviewed NHS's IRS Forms 990 and supporting documentation for FYs 2006 through 2008;
- performed ratio analyses of NHS's financial statements;
- reviewed NHS's independent audits for FYs 2006 through 2010;
- reviewed NHS's by-laws;
- reviewed minutes from NHS's Board of Director meetings; and
- discussed the results of our review with NHS officials on March 26, 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 NHS 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 NHS's financial

management: lack of written cash management policies and procedures; lack of procurement procedures for solicitation of services; incomplete procurement policies and procedures for competitive bidding; and incomplete inventory record.

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

Also, pursuant to 45 CFR § 74.21(b)(6), 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.

NHS did not have written policies and procedures that would provide effective control over and accountability of all funds, property, and other assets. Specifically, NHS did not have written policies and procedures to ensure that the receipts and deposits of miscellaneous income were adequately documented. Funds that are not adequately safeguarded can be used for unauthorized purposes.

In addition, NHS did not have written cash management policies and procedures to ensure that cash balances did not exceed federally insured limits. Funds that exceed FDIC limits are subject to an increased risk of loss in the event of a bank failure.

Furthermore, NHS did not have written policies and procedures to determine the reasonableness, allocability, and allowability of costs, such as expenses associated with gifts or luncheons, in accordance with applicable cost principles. A cash management system whose policies and procedures do not adequately allocate funds may encourage unacceptable use of Federal grant and contract funds.

Lack of Procurement Procedures for Solicitation of Services

Pursuant to 45 CFR § 74.44 (a)(3)(i), (ii), and (iv), grantees are required to establish written procurement procedures, which require solicitations for goods and services to provide a clear and accurate description of the technical requirements for the material, the product or service to be procured, the requirements which the bidder/offeror must fulfill and all other factors to be used in evaluating bids or proposals, and the specific features of "brand name or equal" descriptions that bidders are required to meet when such items are included in the solicitation.

NHS retained the services of several consultants to provide recruitment, attorney services, information technology services, and auditor services. NHS did not have written procedures to ensure that the consultants were the most qualified to perform the services required by NHS at a reasonable fee. Therefore, material, products, or services that are purchased by NHS at the consultants' recommendation may not meet a clear and accurate description of requirements.

Incomplete Procurement Policies and Procedures for Competitive Bidding

Pursuant to NHS Administrative Policy AF-22, *Procurement and Purchasing*:

NHS shall use competitive bidding whenever possible and practical. Informal competitive pricing shall be used when reasonable and feasible. NHS shall comply with all requirements, laws and regulations regarding purchases and expenditures including, but not limited to, Section 330 of the Public Health Services Act, OMB Circulars A-110 and A-1 and the Internal Revenue Code. Exceptions to this policy must be approved by the Chief Executive Officer and be documented for file.

NHS had generalized written policies and procedures concerning competitive bidding, but these policies and procedures were incomplete as to the precise measures to be employed. In practice, NHS used a three-minimum bid process for procurement actions, but this process had not been included in its policies and procedures. The absence of this level of detail could lead to a miscommunication of NHS policies and procedures which could, in turn, increase the chances of improper procurements of goods and services.

Incomplete Inventory Record

Pursuant to 45 CFR § 74.21(b)(3), grantees' financial management systems must provide effective control over and accountability of 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 establish written procurement procedures and to maintain inventory control systems and take periodic physical inventory of grant-related equipment.

The NHS inventory record lacks valid details such as information on the sources of items of property; explanations of whether the title for each piece of property vests in the grantee or in the Federal Government; and additional information such as prices, condition, and the disposal of property. Not adequately recording all assets 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 NHS'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 on our draft report, NHS did not directly agree or disagree with our findings. NHS's comments provided more detailed information on the corrective actions that NHS had implemented or is planning to implement.

NHS's comments are included in their entirety as the appendix.

OFFICE OF INSPECTOR GENERAL RESPONSE

Nothing in NHS's written comments caused us to change either our findings or our recommendation to HRSA. The corrective actions described in NHS's comments were consistent with and relevant to our findings. Therefore, we maintain that those findings and the recommendation, as stated in our draft report, remain valid.

APPENDIX

APPENDIX: AUDITEE COMMENTS



2303 Village Drive
St. Joseph, MO 64506-4954

PO Box 8612
St. Joseph, MO 64508-8612

Phone (816) 271-8261
Fax (816) 232-8421

July 13, 2010

Report Number: A-07-10-03142

Patrick J. Cogley
Regional Inspector General for Audit Services
Region VII
601 East 12th Street
Room 0429
Kansas City, Missouri 64106

Dear Mr. Cogley:

As requested by you in your letter dated July 9, 2010 the following are our comments on your findings and recommendations per Report Number A-07-10-03142.

Lack of Written Cash Management Policies and Procedures:

Finding: NHS did not have a written policies and procedures to ensure that the receipts and deposits of miscellaneous income were adequately documented.

Response: NWH did have a policy and procedure, AF-20 Revenue and Expense Recognition, but lacked specific language concerning Miscellaneous Revenue. Since the audit an updated policy was Board approved dated April 8, 2010 with the following additional language, "Miscellaneous revenue will be recognized when received unless such amount is easily determined and reasonably collectible. Miscellaneous revenue could include well baby clinic receipts, property rental income, donations, interest income, etc. The receipt will be closed to the general ledger that is most appropriate for the revenue." See attached policy AF-20

Finding: NHS did not have written cash management policies and procedures to ensure that cash balances did not exceed federally insured limits.

Response: NHS did not have an investment policy. Board approved investment policy dated April 8, 2010 addressing the insured limits. See attached policy AF-06.

Finding: NHS did not have written policies and procedures to determine the reasonableness, allocability, and allowability of costs, such as expenses associated with gifts or luncheons, in accordance with applicable cost principles.

Finding: NHS did not have written policies and procedures to determine the reasonableness, allocability, and allowability of costs, such as expenses associated with gifts or luncheons, in accordance with applicable cost principles.

Response: NHS will research and develop an appropriate policy and procedure to address this finding and receive Board approval.

Lack of Procurement Procedures of Solicitation of Services

Finding: NHS did not have written procedures to ensure that the consultants were the most qualified to perform the services required by NHS at a reasonable fee.

Response: NHS will research and develop a procedure to address this finding and receive Board approval.

Incomplete Procurement Policies and Procedures for Competitive Bidding

Finding: NHS had generalized written policies and procedures concerning competitive bidding, but these policies and procedures were incomplete as to the precise measures to be employed.

Response: As previously mentioned, NHS does have a Procurement policy (AF-22) but according to the findings lack specificity on the process. NHS will include in the current policy more specifics to address the findings and receive Board approval.

Incomplete Inventory Record

Finding: NHS inventory record lacks valid details such as information on the sources of items of property; explanations of whether the title for each piece of property vests in the grantee or in the Federal Government; and the disposal of property.

Response: AF-12 Fixed Asset policy addresses the costs, disposals and physical inventories. The policy and the inventory does lack the specifics of the vesting of the property and the condition of the property. NHS will review the finding in more detail and receive advice on how to address this finding. See attached AF-12 policy.

If I can answer any questions concerning our response or you need further information please contact me at 816-271-8264 or via email at benernst@nwhealth-services.org.

Sincerely,

Data Redacted by OIG

Ben Ernst,
CEO

(3) Enclosures
Policies & Procedures: AF-06; AF-12; AF-20

Northwest Health Services, Inc.

Administrative Policy
NO. AF-06

TITLE: INVESTMENT POLICY
DEPARTMENT: Finance
APPROVED BY: DATA REDACTED BY OIG
BOARD PRESIDENT:
ORIGINATED BY:
REVISED BY:
EFFECTIVE DATE: April 08, 2010
SUPERSEDES DATE:

PURPOSE:

The objective of the investment policy of Northwest Health Services, Inc. is to provide as reasonable rate of return on investments as is consistent with prudent investment risk while providing adequate liquidity to meet the organization's requirements.

POLICY:

- The finance and Audit Committee on a regular basis should review investment activity.
- When held in a commercial bank, investments of Northwest Health Services, Inc. should not exceed \$250,000 in any one institution for federal insurances purposes.
- Accounts such as interest-bearing checking accounts, money market accounts, certificates of deposit, investment-grade commercial paper, and governmental securities are to be the primary investments. Investment in any other type of investment vehicle requires prior approval by the finance and audit committee.
- A current list of financial institutions approved as depositories for investment will be kept on file and updated regularly by the finance and audit committee.
- All securities are to be written in the name of Northwest Health Services, Inc.

This policy and procedure shall be periodically reviewed and updated consistent with the requirements and standards established by the Board of Directors and by Northwest Health Services, Inc. management, Federal and State law and regulations, and applicable accrediting and review organizations.

AF-06-1.1

NORTHWEST HEALTH SERVICES, INC.

ADMINISTRATIVE POLICY
NO. AF - 12

TITLE: FIXED ASSETS

DEPARTMENT: Finance

APPROVED BY:

DATA REDACTED BY OIG

ORIGINATED BY:

EFFECTIVE DATE: 06/24/10

SUPERSEDES DATE: 6/23/10

PURPOSE:

Furniture, fixtures, medical equipment, computer, and other office equipment (known as Fixed Assets) are an important part of the overall service provided to patients. The Center has an obligation to safeguard these assets against loss or damage during the life of the assets. Additionally, the Center must maintain fixed assets in good repair fit for their intended use. Staff needs to be trained in the proper use of equipment to minimize the risk of injury to patients and staff.

POLICY:

All Fixed Assets (see definition) of the Center shall be acquired in accordance with the Purchasing and Procurement Policy. Upon acquisition, each asset will be tagged with an identifying number and logged into the fixed asset system with an indication of its physical location. The Center shall assure that all assets are maintained in proper working order and that staff are trained in proper operations.

All fixed assets must be insured or otherwise protected against risk of loss. Computer and other equipment as required must be listed and specifically insured. The Center shall perform a physical inventory of all fixed assets at least annually, reconciling any variances from the fixed asset data base.

All assets shall be depreciated according to the AHA depreciation guidelines, unless otherwise justified. Obsolete or assets no longer used should be written off and disposed of by: 1) Donation to another non-profit organization; 2) offered for sale to staff and/or the general public; or 3) destroyed according to local ordinances.

APPROVALS:

- Approval for Fixed Asset acquisitions is detailed in the policy titled "**Purchasing and Procurement**".
- The Controller shall determine the designation of purchased goods as a Fixed Asset and determine the proper asset category and useful life.
- The Board of Directors shall approve disposals of assets with a book value of \$25,000.00 or more.

DEFINITIONS

AF-12-1.4

1. **Fixed Asset:** An asset such as equipment or furnishings with a useful life of more than one year.
2. **Useful Life:** The period of time that an asset will provide utility or service for its intended use.
3. **Capitalized (Depreciable) Fixed Asset:** An asset (or a group of like assets) with the same useful life with an original cost of \$1,500.00 or more.
4. **Group of Like Assets:** Assets of the same type (i.e. waiting room chairs) with the same useful life with an aggregate original cost of \$1,500.00 or more, but an individual cost less than \$1,500.00.
5. **Original Cost:** The total cost of placing an asset into service, including the invoice price, freight, installation costs, and other fees needed to use the asset for its intended purpose.

Fixed Asset Categories:

- **Land:** Land and improvements held for operations purposes, but not land held for investment purposes
- **Building and Improvements:** Buildings and improvements, such as parking lots, held for operations purposes, but not including buildings held for investments.
- **Medical Equipment:** Equipment and instruments used in medical procedures or direct patient care, including laboratory and/or radiology equipment.
- **Dental Equipment:** Equipment and instruments used in dental procedures and/or direct patient care, including laboratory and/or radiology equipment.
- **Office Equipment:** All equipment that is used for office functions and processes including patient information processing not considered direct patient care. This category includes telecommunications equipment, digital photo copiers, postage meters, fax machines, etc.
- **Leasehold Improvements:** Improvements made at Center expense to leased property held for operations purposes that are a permanent part of the leased property and cannot be removed from the property at the end of the lease.

PROCEDURES:**Purchases**

- The CFO shall prepare a Capital Budget, along with the Annual Operating Budget, to be presented to the Board of Directors for approval of capital expenditures for depreciable fixed assets.
- A Purchase Order must be completed and approved by authorized signer before a fixed asset may be purchased (See **Purchasing and Procurement policy No. AF-01**).

- The COO or a designated employee shall be responsible for checking in Fixed Asset purchases.
 - The Packing Slip (*PS*), if available, shall be checked to verify the receipt of the proper asset. The *PS*, and any other documents, should be forwarded as soon as possible to the Accounting Department.
 - All fixed asset(s) shall be tagged with a numbered NHS fixed asset label by the designated employee. *Notice of Fixed Asset Change* (on SharePoint or available upon request from Accounting Department) needs to be completed & forwarded to the Controller.
- When the invoice arrives, the Accounting Department shall match it to the *PS* and *PO*, and note the terms are as ordered, and attach the *PO*, *PS* and other documentation.
- The Accounting Department shall code the invoice with the appropriate general ledger and fixed asset account for payment. A copy of the invoice is given to the Controller.
 - The Controller shall post capitalized assets to the Fixed Asset/ Depreciation module in the accounting system. All fixed asset(s) shall be entered into the Fixed Asset module, noting the label number, location of the asset, and serial number or other identifying number if available.

Physical Inventory

- Each clinic manager and/or other designated employee shall be responsible for taking a physical inventory of all fixed assets at their specified clinic at least annually.
 - Each fixed asset will be verified from the Fixed Asset module and fixed asset spreadsheet to the physical asset by number and location.
 - All assets should be examined for an appropriate NHS label.
 - Any discrepancies will be investigated and explained if possible.
- The CFO shall report the findings of the Fixed Asset Inventory to the Finance Committee.
- If fixed assets are moved from one location/clinic to other locations/clinics, then a *Notice of Fixed Asset Change* form needs to be completed and forwarded to the Controller.

Asset Disposal

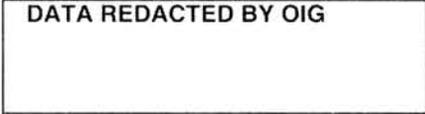
- Assets that have become obsolete, are being replaced, or are no longer needed, must be disposed of in a prudent manner that will maximize whatever value is remaining in the asset.
 - Assets may be sold or donated to other non-profit organizations and agencies.
 - Assets may be traded into a vendor in a transaction to purchase new equipment.
 - Assets may be offered to employees or the general public on a price offer basis or bid basis.

- Assets may need to be destroyed or hauled to a dump if no use is foreseen. All laws and regulations regarding dumping must be followed.
- If a fixed asset is obsolete or disposed of, then a *Notice of Fixed Asset Change* form needs to be completed and forwarded to the Controller.
- The Controller will mark the fixed asset as "disposed" in the Fixed Asset/Depreciation module in the accounting system, dated for the date indicated on the *Notice of Fixed Asset Change*.

This policy and procedure shall be periodically reviewed and updated consistent with the requirements and standards established by the Board of Directors and by Northwest Health Services, Inc. management, Federal and State law and regulations, and applicable accrediting and review organizations.

NORTHWEST HEALTH SERVICES, INC.

ADMINISTRATIVE POLICY
NO. AF-20

TITLE: REVENUE AND EXPENSE RECOGNITION
 DEPARTMENT: Finance
 APPROVED BY: 
 BOARD PRESIDENT: 
 ORIGINATED BY: 
 EFFECTIVE DATE: April 8, 2010
 SUPERSEDES DATE: September 25, 2008

PURPOSE:

To accurately recognize Northwest Health Services revenues and expenses in accordance with generally accepted accounting principles.

POLICY:

Revenues and expenses will be recognized on the accrual basis of accounting. Items subject to accrual will be recognized when received, rather than during the period used. Although most items are recognized on the accrual basis, there are some items that may be recognized on a cash basis.

Patient fees for services rendered will be recognized when the service is performed. Patient fees will be classified by insurance payer such as: sliding fee, private pay, Medicare, Medicaid and private insurance. Detailed patient receivable will be maintained by payer and aged on a monthly basis.

Bureau of Primary Health Care grant revenue will be recognized on a per month basis. This is what is required to meet expenditures beyond that of patient revenue generated. Grants for programs whereby revenue is not generated will be recognized to the extent of grant expenditures.

Miscellaneous revenue will be recognized when received unless such amount is easily determinable and reasonably collectible. Miscellaneous revenue could include well baby clinic receipts, property rental income, donations, interest income, etc. the receipt will be closed to the general ledger that is most appropriate for the revenue.

This policy and procedure shall be periodically reviewed and updated consistent with the requirements and standards established by the Board of Directors and by Northwest Health Services management, Federal and State law and regulations, and applicable accrediting and review organizations.

AF-20-1.1