Department of Health and Human Services

OFFICE OF
INSPECTOR GENERAL

LAWNDALE CHRISTIAN HEALTH CENTER CLAIMED UNALLOWABLE COSTS UNDER RECOVERY ACT GRANTS

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

Sheri L. Fulcher
Regional Inspector General

September 2012
A-05-11-00057

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 (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.

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), Facilities Investment Program (FIP), Increased Demand for Services (IDS), and New Access Points (NAP) grants.

Lawndale Christian Health Center (Lawndale) is a community-based nonprofit organization founded in 1984 and dedicated to improving the health of Lawndale and the neighboring communities on Chicago’s West Side. Lawndale provides primary care health services without regard to a patient's ability to pay and serves as a community resource for eliminating health disparities.

HRSA awarded Lawndale approximately $13.6 million in CIP, FIP, IDS, and NAP grant funds, with grant performance periods starting as early as March 1, 2009, and ending as late as December 8, 2011. Lawndale claimed approximately $6 million under the grants as of March 31, 2011.

Title 45, part 74, of the Code of Federal Regulations establishes uniform administrative requirements governing HHS awards to nonprofit organizations, institutions of higher education, hospitals and commercial entities. As a nonprofit organization in receipt of Federal funds, Lawndale must comply with 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). These cost principles require that grant expenditures be allowable. The HHS awarding agency may include additional requirements that are considered necessary to attain the award’s objectives.

OBJECTIVE

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

SUMMARY OF FINDINGS

Of the $1,345,926 in costs covered by our review, Lawndale claimed $535,311 that was allowable under the terms of the grant and applicable Federal regulations. However, Lawndale claimed Federal grant expenditures totaling $173,897 that were unallowable. We could not determine the allowability of the remaining costs, totaling $636,718, consisting of certain salary and wage costs that Lawndale charged against its IDS and NAP grants.

Lawndale did not ensure that its payroll distribution and financial reporting procedures complied with Federal requirements. Specifically, we determined that:

- physician salaries and wages were not adequately supported by personnel activity reports, and

- expenditures were inadequately documented and improperly allocated to unallowable activities.

RECOMMENDATIONS

We recommend that HRSA:

- ensure that Lawndale refunds $109,720 to the Federal government ($56,160 in unallowable charges to the IDS grant plus $85,167 in unallowable charges to the FIP grant minus $31,607 in net undercharges to the NAP grant),

- either require Lawndale to refund $636,718 to the Federal Government ($611,969 related to the IDS grant and $24,749 related to the NAP grant) or work with Lawndale to determine whether any of the $636,718 was allowable, and

- require Lawndale to take corrective actions to ensure that it maintains personnel activity reports for each employee who works on Federal awards.

GRANTEE COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE

In written comments on our draft report, Lawndale did not concur with the first recommendation. Lawndale stated that while the costs allocated to the IDS and FIP grants outlined in the audit report are unallowable; Lawndale incurred additional expenses that were not submitted because the initial amounts, now deemed unallowable, had exhausted the budget. As a result, Lawndale stated it has allowable expenses available to replace those questioned through the audit, which would render a refund to the Federal government unnecessary. We encourage Lawndale to submit program expenditures to replace those reported as unallowable.

Lawndale did not concur with the second recommendation to refund $636,718 to the Federal Government, but does support the recommendation to work with HRSA to justify the expenses as allowable. Lawndale said it will also commit to ensuring personnel activity reports are adequate.

Lawndale's comments are included in their entirety as Appendix A.

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.

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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 (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.

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 Capital Improvement Program (CIP), Facilities Investment Program (FIP), Increased Demand for Services (IDS), and New Access Points (NAP) grants.

Lawndale Christian Health Center

Lawndale Christian Health Center (Lawndale) is a community-based nonprofit organization, founded in 1984 and dedicated to improving the health of Lawndale and the neighboring communities on Chicago's West Side. Lawndale provides primary care health services without regard to a patient's ability to pay and serves as a community resource for eliminating health disparities.

HRSA awarded Lawndale $13,617,499 in CIP, FIP, IDS, and NAP grant funds, with grant performance periods starting as early as March 1, 2009, and ending as late as December 8, 2011. Lawndale claimed $6,035,402 under the grants as of March 31, 2011.[1]

[1] Specifically, Lawndale claimed $1,649,370 under the CIP grant, $2,760,744 under the FIP grant, $668,129 under the IDS grant, and $957,159 under the NAP grant during this period.

Federal Requirements for Grantees

Title 45, part 74, of the Code of Federal Regulations establishes uniform administrative requirements governing HHS awards to nonprofit organizations, institutions of higher education, hospitals and commercial entities. As a nonprofit organization in receipt of Federal funds, Lawndale must comply with 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). These cost principles require that grant expenditures be 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 Lawndale were allowable under the terms of the grant and applicable Federal regulations.

Scope

We performed this review in response to a request from HRSA. We limited our review of internal controls to those that pertained directly to our objective. We limited our review to $1,345,926[2] in selected costs that Lawndale claimed for these grants during that period.

We performed fieldwork at Lawndale's administrative offices in Chicago, Illinois, in April 2011.

Methodology

To accomplish our objective, we:

- reviewed relevant Federal laws, regulations, Notices of Awards and guidance;
- identified expended funds in Lawndale's accounting records as of March 31, 2011;
- reconciled grant expenditures recorded in the accounting records to quarterly Recovery Act Section 1512 reports;[3]
- compared budgeted and actual expenditures to determine whether Lawndale should have requested prior approval to rebudget costs;

[2] Specifically, we judgmentally sampled $300,453 under the CIP grant, $413,816 under the FIP grant, $142,563 under the IDS grant, and $489,094 under the NAP grant.

[3] The purpose of quarterly Recovery Act Section 1512 report is for recipients to report total Recovery Act funds invoiced and received.

- reconciled grant drawdowns to grant expenditures; and

- reviewed selected costs claimed under the grant for allowability.

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 RECOMMENDATIONS

Of the $1,345,926 in costs covered by our review, Lawndale claimed $535,311 that was allowable under the terms of the grant and applicable Federal regulations. However, Lawndale claimed Federal grant expenditures totaling $173,897 that were unallowable.[4] We could not determine the allowability of the remaining costs, totaling $636,718, consisting of certain salary and wage costs that Lawndale charged against its IDS and NAP grants.

Lawndale did not ensure that its payroll distribution and financial reporting procedures complied with Federal requirements. Specifically, we determined that:

- physician salaries and wages were not adequately supported by personnel activity reports, and

- expenditures were inadequately documented and improperly allocated to unallowable activities.

UNALLOWABLE AND POTENTIALLY UNALLOWABLE EXPENDITURES CLAIMED FOR FEDERAL REIMBURSEMENT

Federal Requirements

Pursuant to 2 CFR pt. 230, Appendix A, § A.2, costs must be adequately documented to be allowable under an award. Pursuant to 2 CFR pt. 230, Appendix B, § 8.m(1), 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. The activity reports maintained by nonprofit organizations must meet the following standards:

- reflect an after-the-fact distribution of the actual activity of each employee,

[4] Although Lawndale claimed $173,897 in unallowable expenditures, we determined that it also undercharged its NAP grant by $64,177 (as described below). Thus, our related recommendation reflects a net unallowable amount of $109,720.

- 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.

Pursuant to 45 CFR § 74.21(b), grantees are required to 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 set forth in 74.52.
- Records that identify adequately the source and application of funds for HHS-sponsored activities.
- Comparison of outlays with budgeted amounts for each award.
- 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.

Pursuant to 2 CFR pt. 230, Appendix A, § A.2.a, to be allowable under an award, grantee costs must be reasonable for the performance of the award and be allocable thereto under these principles. Pursuant to 2 CFR pt. 230, Appendix A, § A.1, the composition of total costs of an award is the sum of the allowable direct and the allocable indirect costs, less any applicable credits.

Expenditures for the Increased Demand for Services Grant

Grant Requirements

Pursuant to HRSA award guidance, the project period for all IDS grants is March 27, 2009, through March 26, 2011, and IDS funds cannot be used to support any costs incurred prior to receipt of an IDS notice of grant award.[5]

[5] HRSA, "Increased Demand for Services: Frequently Asked Questions," Question #3. Available online at http://bphc.hrsa.gov/recovery/faqs.html. Accessed on June 12, 2012.

Salary and Wage Costs

Lawndale did not maintain personnel activity reports to support salary and wage costs that it charged to the IDS grant. Therefore, we could not determine whether $611,969 in salaries and wages that Lawndale charged to the IDS grant were allowable.

Lawndale did not have 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.

Preaward Costs

Lawndale incurred salary and wage costs totaling $56,160 prior to the receipt of the notice of grant award (March 27, 2009). The costs were for service dates of February 17, 2009, through March 26, 2009; therefore, these costs were unallowable.

Expenditures for the Facility Investment Program Grant

Grant Requirements

HRSA's "FIP Application Guidance," issued June 19, 2009, and updated July 29, 2009, states that costs related to land or facility purchases are not eligible for reimbursement.

Allocability of Program Funds

Lawndale improperly charged land acquisition costs of $154,409 ($84,925 Federal share[6]) to the FIP grant. These costs are unallowable under the terms of the grant.

Duplicate Charges

In September 2010, Lawndale received and paid an invoice totaling $439 for garbage services as part of the FIP grant. Two weeks later, Lawndale received and paid another invoice totaling $452, which included the amount from the prior invoice. The first payment was not posted to Lawndale's account prior to the delivery of the second invoice. This resulted in the double payment of $439 ($242 Federal share) that was improperly charged to the FIP grant.

Expenditures for the New Access Points Grant

Grant Requirements

The HRSA notice of grant award for the NAP grant, dated February 26, 2009, states that the purpose of the grant is to support the establishment of new services delivery sites. Additionally,

[6] The Federal government pays 55 percent of FIP grant expenditures (Federal share) in accordance with the notice of grant award.

if Federal funds are to be used to pay for equipment, a list of the items must be submitted to HRSA's Division of Grants Management Operations within 30 days of receipt of the notice of grant award. If the list is not provided, all equipment purchases must be paid for with non-Federal funds.

Salary and Wage Costs

We found that Lawndale undercharged a net total of $59,587 to the NAP grant. This amount consisted of the following.

- Lawndale claimed and charged to the NAP grant, wages greater than amounts supported by accounting and payroll records for two employees. In January 2011, Lawndale claimed $12,726 in wages but accounting and payroll records supported only $8,729 in wages. This difference represents an overcharge of $3,997. The discrepancy was due to a clerical error in recording December 2010 wage amounts.

- Lawndale claimed wages less than amounts supported by accounting and payroll records for the same two employees. In July 2010, Lawndale claimed $5,713 in wages for one employee where accounting and payroll records supported $6,664 in wages. This difference represents an undercharge of $951. During June and July of 2010, Lawndale claimed $1,147 in wages for the second employee but accounting and payroll records supported $2,275 in wages, resulting in an undercharge of $1,128. This difference was due to the exclusion of both employees' bonuses from the grant charges. The bonuses were performance based and met Federal requirements regarding allowability.

- Lawndale prepared spreadsheets that covered our audit period, March 2009 to February 2011, to calculate the monthly amounts charged to the NAP grant. The spreadsheets correctly reported incurred cost of $956,566. The total incurred cost submitted to HRSA was $957,159. This resulted in an overcharge of $593 to the NAP grant.

- Lawndale claimed FICA, workers' compensation, and pension expenses related to the NAP grant that were less than the amounts supported by its accounting records. Specifically, Lawndale's accounting records showed that it had incurred $79,171 in allowable expenses, but that it only charged $21,125 to the grant. The difference represents an undercharge of $58,046. Lawndale did not claim the full amount that it was entitled to claim because it calculated benefit amounts based on total salaries for one group of employees instead of total salaries for the three groups covered for the period of July 2009 through February 2011.

- Lawndale claimed health insurance expenses related to the NAP grant for amounts less than supporting accounting records. Lawndale claimed $67,633 of the $71,685 in allowable expenses, resulting in an undercharge of $4,052. This difference was due to Lawndale miscalculating health insurance amounts for the periods of March 2009 through June 2009 and November 2009 through December 2009.

We could not determine the allowability of an additional $24,749 in salaries and wages. Specifically:

- During December 2010 and January 2011, Lawndale charged $305 in wage costs to the NAP grant for which there were no salary records documenting that the employee worked on the grant during the 2-month period.

- Lawndale charged $24,444 in salaries and wages for two administrative employees to the NAP grant during the period of March 2009 through February 2011 based on estimated percentages of effort rather than on documentation of the actual work performed on the grant.

Because Lawndale did not maintain documentation supporting $24,749 in salary and wage costs that it charged to the NAP grant, we could not determine whether the charges were allowable.

Equipment Costs

Lawndale did not submit a list of equipment to the Division of Grants Management Operations within 30 days of receipt of the notice of grant award as required. Therefore, the associated charges of $26,906 are unallowable.

Allocability of Program Funds

Lawndale received an invoice for phone services totaling $1,678 which covered multiple locations including a new access point/service delivery site. Phone services related to new access points were allowable under the NAP grant. Not all locations covered under the invoice were new access points; however, the entire invoice was charged to the NAP grant. Of that amount, $1,074 was related to established access points and was therefore unallowable.

RECOMMENDATIONS

We recommend that HRSA:

- ensure that Lawndale refunds $109,720 to the Federal government ($56,160 in unallowable charges to the IDS grant plus $85,167 in unallowable charges to the FIP grant minus $31,607 in net undercharges to the NAP grant),

- either require Lawndale to refund $636,718 to the Federal Government ($611,969 related to the IDS grant and $24,749 related to the NAP grant) or work with Lawndale to determine whether any of the $636,718 was allowable, and

- require Lawndale to take corrective actions to ensure that it maintains personnel activity reports for each employee who works on Federal awards.

GRANTEE COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE

In written comments on our draft report, Lawndale did not concur with the first recommendation. Lawndale stated that while the costs allocated to the IDS and FIP grants outlined in the audit report are unallowable; Lawndale incurred additional expenses that were not submitted because the initial amounts, now deemed unallowable, had exhausted the budget. As a result, Lawndale stated it has allowable expenses available to replace those questioned through the audit, which would render a refund to the Federal government unnecessary. We encourage Lawndale to submit program expenditures to replace those reported as unallowable.

Lawndale did not concur with the second recommendation to refund $636,718 to the Federal Government, but does support the recommendation to work with HRSA to justify the expenses as allowable. Lawndale said it will also commit to ensuring personnel activity reports are adequate.

Lawndale's comments are included in their entirety as Appendix A.

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

LAWNDALE CHRISTIAN
HEALTH CENTER
Loving God. Loving People.

June 19, 2012

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

Ms. Fulcher,

On behalf of the board, staff and patients of Lawndale Christian Health Center, thank you for an opportunity to comment on the draft report entitled "Lawndale Christian Health Center Claimed Unallowable Costs Under Recovery Act Grants" (A-05-11-00057). After reviewing the draft report, we did, in fact, find several items worthy of commentary. The attached document outlines the items of note.

We appreciate the opportunity to provide feedback.

Sincerely,

Bruce E Miller, CEO

Lawndale Christian Health Center's
Comments on the
Department of Health and Human Services - Office of Inspector General's
Draft Audit Report A-05-11-00057
"Lawndale Christian Health Center Claimed Unallowable Costs Under Recovery Act Grants"

The following are comments from Lawndale Christian Health Center (Lawndale) in response to the Department of Health and Human Services, Office of Inspector General's (OIG) draft audit report A-05-11-00057 entitled "Lawndale Christian Health Center Claimed Unallowable Costs Under Recovery Act Grants."

Recommendation 1:

HRSA should ensure that Lawndale refunds $109,720 to the Federal government ($56,160 in unallowable charges to the IDS grant plus $85,167 in unallowable charges to the FIP grant minus $31,607 in net undercharges to the NAP grant).

Response 1:

Lawndale strongly disagrees with the recommendation to refund $109,720 to the Federal government on the basis that while the costs allocated to the IDS ($56,160) and FIP ($85,167) grants outlined in the audit report are, in fact, unallowable, Lawndale incurred additional, allowable expenses related to both the IDS and FIP grants that were not submitted because the initial amounts now deemed unallowable had exhausted the budget.

Lawndale has reviewed expenditures for each project and outlined additional, allowable expenses for IDS ($116,802 total) and FIP ($103,576 total) which would fully satisfy the grant requirements for each project. Lawndale is prepared to submit the itemized list of expenses upon request and asks that HRSA review the remainder of the allowable expenses for IDS ($56,160) and FIP ($85,167), the result of which would render a refund to the Federal Government of $109,720 unnecessary.

Recommendation 2:

HRSA should either require Lawndale to refund $636,718 to the Federal Government ($611,969 related to the IDS grant and $24,749 related to the NAP grant) or work with Lawndale to determine whether any of the $636,718 was allowable.

Response 2:

Lawndale strongly disagrees with the recommended option to refund $636,718 to the Federal Government on the basis that the aforementioned expenses are, in fact, allowable. However, Lawndale supports the recommended option for HRSA to review the methodology used by Lawndale to justify the expenses as fully allowable and adequately documented pursuant to 2 CFR pt 230, Appendix A § A.2.

As a federally qualified health center (FQHC) designated under § 330 of the Public Health Service (PHS) Act, Lawndale produces an annual cost report for timely submission at both the State level (Medicaid Cost Report) and the Federal level (Medicare Cost Report). The audited reports capture in aggregate all allowable costs associated with a primary care visit, disallowing expenses related to administration, fundraising, and other non-covered services. The result is a per-patient-visit expenditure amount known as the "encounter rate" which fluctuates each year. Lawndale used the corresponding encounter rate during the grant period to aggregate costs associated with the discreetly identifiable patients who qualified for IDS and NAP programs. For example, the total number of new patient visits attributable to IDS for the quarter October 2010 through December 2010 was 416. That year the encounter rate was $125. Resultantly, Lawndale allocated $52,000 of expense for the quarterly period.

Given the institution and acceptance of the cost reporting methodology by departments at both the State and Federal Government, Lawndale asserts that cost was adequately documented and allowable pursuant to 2 CFR pt. 230, Appendix A § A.2 for both IDS and NAP grants. Furthermore, any cost methodology that seeks to differentiate through payroll reports the amount of minutes per-day, per-employee for each IDS-qualifying patient is unreasonable and would result in inflated and unnecessary administrative expense. It should also be noted that no patients identified by Lawndale as qualifying for the IDS and NAP programs were found to be incorrectly classified as such by the OIG auditors.

OIG correctly cites that pursuant to 2 CFR pt 230, Appendix B, § 8.m(1), the distribution of salaries and wages must be supported by personnel activity reports and that the activity reports maintained by nonprofit organizations must:

- reflect an after-the-fact distribution 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.

Through a payroll process which requires submission of timecards for all employees bi-weekly, Lawndale satisfied all four requirements above during the grant periods for both IDS and NAP. Every employee in the organization (i.e. physicians, medical assistants, phone operators, etc.) provide a bi-weekly record (timesheet) supporting their payroll expense. The integrity of the data and the payroll process is reviewed and tested annually by our independent auditor performing the A133 audit, as well as the workers compensation insurance carrier's audit division and state and local granting agencies (e.g. City of Chicago) who deploy their own auditors for separate grant awards.

Lawndale requests that HRSA provide more detailed guidance on cost reporting prior to the completion of any future Federal awards.

Recommendation 3:

HRSA should require Lawndale to monitor the budget status for each grant to ensure award limitations are not to exceeded or request awarding agency prior approval to exceed the budgeted amounts.

Response 3:

Lawndale partially agrees with this recommendation on the basis that monitoring budget status does fall under the auspices of proper fiscal stewardship for all grant awards and should, therefore, be conducted. However, regarding the audit report section (Lack of Prior Approval – Budget Overages, p. 7) to which this recommendation relates, Lawndale strongly disagrees with OIG's assertion that a prior approval request was needed for the line item exceeding the budgeted amount ("Other architectural and engineering fees" within the FIP grant, amounting to $4,601 in overages, according to OIG).

Pursuant to the FIP notice of grant award (under Standard Terms, section 4, p. 7), Lawndale must submit to HRSA for prior approval of significant re-budgeting of project costs. It states, "Significant rebudgeting occurs when, under a grant where the *Federal share* exceeds $100,000, cumulative transfers among direct cost budget categories for the current budget period exceeds 25 percent of the total budget…*or $250,000*, whichever is less" (emphasis mine). Therefore the re-budgeting threshold at which Lawndale was required to seek prior approval was not $100,000, but $250,000 – a threshold that was not met under the "Other architectural and engineering fees" account classification ($85,000 budgeted, $189,600 expended).[1]

Recommendation 4:

HSRA should require Lawndale to take corrective actions to ensure that it maintains personnel activity reports for each employee who works on Federal awards.

Response 4:

Again, Lawndale partially agrees with the above recommendation on the basis that it is advisable to maintain adequate personnel reports for all employees compensated through Federal awards. However, Lawndale strongly feels that the procedures currently in place (i.e. the annual submission of two

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[1] **Office of Inspector General Note** — We are no longer making the recommendation as the tentative finding has been deleted from our report.

separate cost reports, an independent A133 audit, and numerous state and local program audits) have the capacity to adequately ensure proper fiscal stewardship for Federal awards. Lawndale will commit to the more thorough execution of quarterly expense reports for future Federal awards.

APPENDIX B: HEALTH RESOURCES AND SERVICES ADMINISTRATION COMMENTS

TO: Inspector General

FROM: Administrator

SUBJECT: OIG Draft Report: "Lawndale Christian Health Center Claimed Unallowable Costs Under Recovery Act Grants" (A-05-11-00057)

Attached is the Health Resources and Services Administration's (HRSA) response to the OIG's draft report, "Lawndale Health Center Claimed Unallowable Costs Under Recovery Act Grants" (A-05-11-00057). 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 – "Lawndale Christian Health Center Claimed Unallowable Costs Under Recovery Act Grants" (A-05-11-00057)

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 ensure that Lawndale refunds $109,720 to the Federal Government ($56,160 in unallowable charges to the IDS grant plus $85,167 in unallowable charges to the FIP grant minus $31,607 in net undercharges to the NAP grant).

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 either require Lawndale to refund $636,718 to the Federal Government ($611,969 related to the IDS grant and $24,749 related to the NAP grant) or work with Lawndale to determine whether any of the $636,718 was allowable.

HRSA Response:

HRSA concurs with the OIG recommendation and will work with the grantee to determine if any ARRA grant funds need to be refunded.

OIG Recommendation to HRSA:

We recommend that HRSA require Lawndale to take corrective actions to ensure that it 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 ensure that it maintains personnel activity reports for each employee who works on federal awards.