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October 11, 1995

Dr. Marilyn Gaston, Director  
Bureau of Primary Health Care  
Health Resources and Services  
Administration  
Department of Health and  
Human Services

Dear Dr. Gaston:

As you requested, this letter summarizes the results of our review of the progress made by the Bureau of Primary Health Care in resolving grant administration issues identified in our 1992 report, Community Health Centers: Administration of Grant Awards Needs Strengthening (GAO/HRD-92-51). Our review of this progress was requested by Senator Kassebaum, Chairman, Senate Labor and Human Resources Committee. We briefed Senator Kassebaum in preparation for reauthorization hearings for the Community and Migrant Health Center (C/MHC) program, which is administered by the Bureau.

Our update focused on the five aspects of program administration discussed in our 1992 report: the way Bureau grants are calculated, the degree of competition involved in grant awards, whether the Bureau ensures that grants do not support improper dues payments, whether the Bureau routinely awards grants for the standard 12-month grant period, and whether the Bureau has a process to ensure an unbiased grant review process.

To do this work, we reviewed Public Health Service (PHS) and Bureau policies, their implementation, and their effects; analyzed grant award data and financial data from health centers; reviewed agency reports, relevant laws and regulations, and Internal Revenue Service (IRS) information returns filed by two associations that receive dues from health center grantees; and spoke with cognizant officials at the Bureau. We conducted this review from March to May 1995 in accordance with generally accepted government auditing standards.

GAO/HEHS-96-13R Community Health Center Grants

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In summary, we found that the Bureau has made several policy changes that improve the Bureau's administration of the C/MHC program but also that further improvements could be made. First, the Bureau has adopted a policy to ensure that grant award amounts are determined according to the formula prescribed by the PHS Act. But we identified a more general internal control weakness that limits the Bureau's ability to oversee the use of federal dollars. Second, the Bureau has made improvements in increasing opportunities for competition for grant funds. However, because of concerns about interrupting service to populations now being served, the Bureau has also adopted a policy that precludes competition from outside a given service area. Third, the Bureau has adopted a policy to prohibit Bureau funds from being used for dues to organizations that exceed IRS limits on lobbying expenses for tax-exempt organizations. However, at the time of our review, Bureau officials had not yet implemented the policy. Fourth, the Bureau is no longer routinely awarding grants for less than the standard 12-month period. Finally, a PHS review concluded that the Bureau has reduced the potential for bias in the independent review process, and our review of Bureau policies supports this.

#### GRANT CALCULATION

In 1992, we found that the Bureau was not in compliance with the PHS Act,<sup>1</sup> which requires that health center grants not be for more than the amount by which a grantee's operating costs exceed its revenues. As a result, grants at that time could have been larger than the law permits. Our recent review found that the Bureau revised its funding policy in fiscal year 1994 to comply with the PHS Act. Further, our review of ten judgmentally selected centers showed that, for the most part, the Bureau does adjust unobligated grant balances that exceed the requirements in the act by offsetting future grant amounts by prior year overages.

However, our review identified a possible internal control weakness in the Bureau's financial systems: The Bureau does not perform an annual review of the financial status reports from health centers, although it is its policy to

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<sup>1</sup>42 U.S.C. 254b(d)(4)(A) and 254c(d)(4)(A).

do so. Performing this review would enable the Bureau to better ensure that federal dollars are expended for approved purposes and in a manner consistent with grant regulations.

### COMPETITION

Although the Bureau has made some progress in creating opportunities for competition for health center grants, the impact of these changes has been limited. One contributing factor may be a policy the Bureau adopted because of its concern that service delivery might be disrupted if grantee turnover increased.

In our 1992 report, we reported that the Bureau had awarded health center and national association grants without competition, so that the same organizations received grants year after year. We also reported that the Bureau did not provide timely notification to parties other than existing grantees regarding submission of grant applications.

Our recent review showed some improvement in this area. The Bureau announced the availability of funds for fiscal years 1992 through 1994 in the Federal Register before awarding health center grants, thereby providing potential competitors with an opportunity to apply. Although heightened grant publicity has increased opportunities for competition, turnover of "incumbent" health center grantees has remained low. For example, in fiscal year 1993, only 2 of 244 centers with expiring project periods were replaced by competing proposals, and in fiscal year 1994, only 5 of 144 were replaced by competing proposals. Further, low turnover in existing health center grantees is expected to continue for at least the next 2 years because the Bureau recently sought and received approval to lengthen grant periods from 3 to 5 years.

Although increased competition provides the opportunity for government savings, it also increases the risk of service delivery interruptions that could accompany increased grantee turnover. One Bureau official told us that concerns about service delivery interruptions prompted the Bureau to deviate from the PHS "maximum competition" policy and adopt instead a "limited competition" policy. This policy requires competition only within the geographic region served by an expiring health center grant. Further, it appears that the Bureau did not obtain explicit approval to deviate from the established PHS policy of maximum competition.

DUES ASSISTANCE

The Bureau has adopted, but not yet implemented, a 1993 PHS policy that prohibits Bureau funds from being used for dues to organizations that exceed the Internal Revenue Service (IRS) lobbying expenditure limitations for 501(c)(3) organizations. According to Bureau officials, the Bureau plans to implement the policy this fiscal year.

Our 1992 report criticized a 1987 Bureau program--the "Dues Assistance Plan"--for reducing Bureau control over how its funds were used. This program provided supplemental funding indirectly, through grantees' dues, to two national associations to compensate them for reductions in the grants they received from the Bureau.

While Bureau officials told us the Bureau planned to implement the 1993 PHS policy in fiscal year 1995, it had not done so at the time of our review. Thus, we were unable to determine whether the policy was being properly implemented. We did, however, obtain and review IRS information returns of two associations--the National Association of Community Health Centers, Inc., and the National Migrant Resource Program, Inc.--that receive membership dues from Bureau grantees. We found that neither organization reported lobbying expenses exceeding IRS limitations for the 2-year period we examined.

GRANT PERIOD LENGTH

The Bureau has substantially decreased the number of grants it awards for periods of less than 12 months to comply with the Department of Health and Human Services' (HHS) 1-year standard. In 1992, we found that the Bureau had awarded 193 grants for less than the standard 12 months in fiscal year 1991 without disclosing this practice to HHS or the Congress. This practice resulted in the costs of the program being understated for that year.

Our recent review found that the Bureau no longer systematically deviates from established PHS policy on grant period length. For each fiscal year between 1992 and 1994, fewer than 20 of a total of more than 500 health center grants deviated from the standard 12-month grant period. In most of these cases, the Bureau was able to provide documentation of a compelling reason for varying the grant period.

INDEPENDENT REVIEW

The Bureau has adopted a new process for independent review of grant applications that provides the final decisionmaker information on the recommendations of all independent reviewers. We reported in 1992 that the final decisionmaker did not always have the opportunity to consider the views of independent reviewers--whose work served as an internal control against bias in the grant review process--in making these decisions.

In response to our 1992 report, PHS' Office of Management reviewed the Bureau's independent review process and determined that action already taken by the Bureau was adequate to correct for the potential for bias we had identified. Our review of the Bureau's independent review policy supports this view.

CONCLUSIONS

Although the Bureau has made progress in addressing a number of deficiencies in its administration of the C/MHC program, other actions are still needed. In particular, the Bureau has not followed its own internal control process to systematically approve and authorize community health center financial status reports to ensure that federal dollars are used appropriately. Further, the Bureau has not yet implemented its newly adopted policy prohibiting the payment of dues by grantees to associations that exceed IRS-lobbying expenditure limitations.

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We wanted to bring these matters to your direct attention so you can take appropriate action. We would be glad to discuss these and any other matters with you. Please contact Mark Nadel, Associate Director, at (202) 512-7125 with any questions. This letter was prepared by Martha Elbaum, Senior Evaluator, under the guidance of Rose Martinez, Assistant Director. Thank you and the other officials at the Bureau for your assistance and cooperation during our review.

Sincerely yours,



Sarah F. Jaggar  
Director, Health Financing and  
Public Health Issues

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