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COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

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cit The Honorable Ernest F. Hollings
United States Senate

R Dear Senator Hollings:

In response to your request of February 4, 1974, we have reviewed the activities of the Charleston Area Comprehensive Health Planning (CACHP) agency, Charleston, South Carolina, applicable to grants made by the Department of Health, Education, and Welfare (HEW). We examined the financial records of The United Way, Incorporated,¹ which maintains the CACHP financial records and is the parent organization of CACHP. We also reviewed CACHP's program activities, to the extent necessary, to determine the agency's status in relation to the purposes for which the grants were made but did not attempt to evaluate those activities. Our examination covered the period from June 1, 1969, through January 31, 1974.

Although we did not submit our findings and conclusions to CACHP, The United Way, or HEW for review and written comments, we discussed our findings with officials of these agencies, and their comments have been considered in preparing this report.

BACKGROUND

CACHP was organized in 1969 by The United Way, as one of its divisions, to carry out comprehensive health planning for Berkeley, Charleston, and Dorchester Counties, South Carolina (referred to as the tricounty area). CACHP received its first grant from HEW under section 314(b) of the Public Health Service Act (42 U.S.C. 246) on June 1, 1969.

HEW's program guide for areawide comprehensive health planning (CHP) agencies provides that the planning should focus on the people of an area and the circumstances and actions that contribute to or interfere with their physical and mental health and the healthfulness of their environment. The program guide also provides that CHP agencies,

¹Formerly United Community Services, Incorporated. The United Way is the charitable fundraising and planning agency for the Charleston Area.

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through agreement of providers and consumers of health services

- identify health needs, goals, and priorities;
- inventory resources available;
- make recommendations on solving health problems; and
- implement the recommendations.

CHP agencies are also responsible for reviewing and commenting on health projects and plans proposed by other health agencies when requested or required under Federal or State law.

Management of CACHP is vested in a 40-member board of directors which, as of March 1974, consisted of 22 consumers of health services, 15 providers of health services, and 3 local government officials. The number of consumers complies with the legal requirement that a majority of the board consist of representatives of consumers of health services.

The professional staff consists of five full-time employees, a director, an associate director, and three health planners. The director administers the total CACHP program and reports to the board of directors. The remaining professional staff assist the various board committees, but are under the direction of and report to the director.

The United Way manages all fiscal aspects of the CACHP program and monitors the work program. However, CACHP's board of directors has the final voice in adapting plans and policies.

RESULTS OF EXAMINATION

Accounting system and related internal controls

With one minor exception, CACHP's accounting system and related internal controls adequately insure the safety of assets and the accuracy of financial reports. The minor deficiency concerns weak internal controls over handling cash.

The United Way financial officer was responsible for opening the mail, receiving cash and checks, endorsing checks, preparing deposit slips, and making deposits. Integrity of the control over cash could be strengthened if someone else performed some of these functions.

The United Way and CACHP officials concurred and said corrective action would be taken to improve control over handling cash.

Source and application of funds

From June 1, 1969, to May 31, 1973, the grant agreements provided that HEW furnish 50 percent of CACHP's funds and that the other 50 percent be provided through local matching contributions. From June 1, 1973, to May 31, 1974, HEW's share was increased to 55 percent.

During June 1, 1969, to May 31, 1974, HEW grants to CACHP totaled \$426,000; however, as of January 31, 1974, actual payments totaled \$317,000. Of this amount, \$51,856 was for The United Way's indirect costs relating to CACHP.

The grantee's records show that through January 31, 1974, local matching funds consisted of cash or in-kind contributions amounting to \$266,240, as follows:

The United Way, Inc.	\$171,194
South Carolina Board of Health	30,600
Medical University of South Carolina	25,123
Berkeley County	17,300
Other	<u>22,023</u>
Total	<u>\$266,240</u>

Therefore, total Federal funds and matching or in-kind contributions amounted to \$583,240. Of this amount \$574,079 had been expended as of January 31, 1974, leaving an unexpended balance of \$9,161. Enclosure I shows the total grant and matching funds received and disbursed during June 1, 1969, to January 31, 1974.

Comparison of actual and
budgeted expenditures

Total actual expenditures of Federal funds were less than the total amount of the grants during June 1, 1969,

through May 31, 1973. However, for some items in the budget, expenditures exceeded budgeted amounts and, in one case, Federal funds were spent for an unbudgeted item. (See enc. II.)

HEW's program guide for areawide CHP permits grantees to transfer funds between budgeted line items subject to certain restrictions requiring HEW approval. We found that CACHP received prior HEW approval to transfer funds between budgeted line items for consultant services and contracts and equipment. Records show that \$2,206 was spent to interview and move personnel although there was no provision for such expenditures in the budget and we could find no record of HEW approval of these expenditures.

Direct costs

CACHP's expenditures for direct costs of project activities were in accordance with grant terms and, with some minor exceptions, were adequately documented and properly recorded in the accounts. The exceptions included expenditures totaling \$1,813 not adequately documented and expenses totaling \$782 not properly classified.

Indirect costs not accurately determined

The United Way received \$51,856 for indirect costs which it supposedly incurred as a result of involvement with the CACHP program from June 1, 1969, through January 31, 1974. The indirect cost reimbursements were recorded in CACHP records as transfers to The United Way's general fund.

To ascertain the validity of the indirect cost reimbursement, we compared The United Way's actual indirect costs related to CACHP with the amount reimbursed by HEW for calendar year 1971. Indirect cost reimbursement for the following period was waived because of a shortage of grant funds. Since The United Way's records are kept on a calendar year basis and CACHP's records are maintained on a grant year basis (June to May), adjustments were required to have compatible data.

At our request, The United Way's financial officer identified all CACHP related costs in calendar year 1971. The identified indirect costs, after excluding amounts already charged to CACHP as The United Way's matching contribution, were \$4,800; however, The United Way was

reimbursed \$14,456. Although the estimated indirect cost is not exact, we believe that the comparison indicates that indirect costs are not being accurately determined for reimbursement purposes.

The indirect cost rate computation showed that the rate determination process was somewhat arbitrary. For example, The United Way salaries were assumed to be 50 percent direct costs and 50 percent indirect costs, without an adequate review to determine the validity of that assumption.

The Director of The United Way said he applied for indirect costs at HEW's insistence and he complied with HEW's requirements for computing the overhead rate. Furthermore, any questions regarding the rate should be directed to HEW. HEW's region IV Acting Branch Manager, Health Planning and Facilities Division, said he had problems in understanding the logic for paying indirect costs to an agency, such as The United Way, which had a requirement for matching contributions. The regional representative from the HEW Comptroller's Office said his office made overhead rate determinations on the basis of desk reviews and telephone conversations and that the data submitted was assumed to be reliable. He stated that he would take a very close look at the next CACHP proposal for indirect costs.

Matching requirement not met on two grants

Although all CACHP annual expenditure reports submitted to HEW showed that each year matching requirements were exceeded, it was not met on two grants. For grant periods ending May 31, 1971, and May 31, 1972, expenditures of matching funds were less than expenditures of Federal funds by \$5,965 and \$312, respectively. These amounts are net shortages after adjustments to add legitimate matching expenditures which CACHP did not claim and to subtract overstated or unsupported expenditures shown as matching contributions.

CACHP program status

As of April 1974, CACHP had completed a number of studies in which tricounty area health needs were identified and health resources inventoried. According to CACHP officials, the information obtained from these studies will be the basis for a comprehensive health plan for the tricounty area. The comprehensive health plan was scheduled

for completion by March 1974; however, the CACHP director stated that it would probably be September 1974 before it is completed.

These studies have been used by the CACHP's board of directors and project notification and review committee reviewing other grant applications and health facility franchise applications.

There have been certain health-related decisions and accomplishments in the tricounty area which were directly or indirectly influenced by CACHP. Several of the more significant accomplishments include:

- CACHP acute care (hospital) facilities studies, finalized in April 1972, identified the need for and recommended the establishment of a regional hospital to serve Berkeley and Dorchester Counties and the Northern part of Charleston County. The studies also recommended that if the regional hospital were built, the two small hospitals in Berkeley and Dorchester Counties be phased out. A hospital was under construction at the time of our audit.
- A subsequent hospital study, authorized in January 1973, showed that, with the addition of the above mentioned hospital, the hospital bed needs of the tricounty area will be satisfied. As a result of this position, CACHP disapproved a proposal for another hospital which was to be located in North Charleston.
- CACHP nursing home studies in January and September 1973 identified an immediate need for 160 nursing home beds and recommended the construction of 250 beds during 1973-75. The director told us that CACHP has already approved one 44-bed facility and that two similar facilities are being planned.

In addition, CACHP had been actively involved in planning and/or developing several health-related projects in the tricounty area.

HEW management of the
CACHP program

HEW's management of the CACHP grant has been limited to:

- A review of grant applications.
- Some correspondence between the two activities (usually related to a problem encountered by CACHP).
- One site assessment which was made in December 1973.

The site assessment report, although generally favorable, pointed out several areas where CACHP was considered deficient. Some of the more significant areas of deficiency were:

- The areawide comprehensive health plan was not complete.
- Goals for the area's health care system had not been stated systematically on the basis of defined needs and resources.
- CACHP did not have a printed compilation of data sources although its files and library contain many data documents.

CACHP officials have established a timetable with HEW to correct the deficiencies and are taking corrective action.

CONCLUSIONS

We found no indication of impropriety in managing CACHP funds. Although some errors and internal control weaknesses were identified, we did not consider them to be of major significance.

However, indirect costs are not being accurately determined, and HEW should reevaluate the indirect costs negotiated and applied to this grant to determine the necessity for and accuracy of indirect costs being paid.

Although deficient in some work program areas, CACHP has completed numerous studies toward developing and sustaining an operational CHP program for the tricounty area. The completion of the composite health plan was scheduled for March 1974; however, the present estimate extends the completion date to September 1974.

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On March 6, 1974, Senator Strom Thurmond requested that we audit this organization. We are, therefore, submitting a similar report to him. Copies of this report are being sent to CACHP and HEW; however, we do not plan to distribute this report further unless you agree or publicly announce its contents.

Sincerely yours,

A handwritten signature in dark ink, appearing to read "James B. Arto". The signature is fluid and cursive, with the first name "James" and last name "Arto" being clearly legible, and "B." in the middle.

Comptroller General
of the United States

Enclosures - 2

FUNDS RECEIVED AND DISBURSEDJUNE 1, 1969, to JANUARY 31, 1974

Receipts:

HEW grant funds	\$317,000	
Matching funds (cash or in-kind)	<u>266,240</u>	
Total		\$583,240

Direct disbursements:

Salaries and personnel benefits	345,913	
Consultant services, studies, and contracts	87,407	
Rent	38,600	
Travel	15,433	
Supplies and postage	9,001	
Equipment	8,786	
Utilities, janitor, and miscellaneous	5,641	
Telephone	5,053	
Interview and move personnel	3,850	
Books and periodicals	469	
Special project--Emergency Medical Service	<u>2,070</u>	

Total direct disbursements	522,223	
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Indirect disbursements (paid through CACHP to The United Way)

51,856

Total disbursements	\$ <u>574,079</u>
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Unexpended balance	\$ <u>9,161</u>
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CACHP BUDGETED VERSUS ACTUAL EXPENDITURESJUNE 1, 1969, to MAY 31, 1973

	<u>Federal funds</u>			<u>Non-Federal funds</u>		
	<u>Budgeted expenditures</u>	<u>Actual expenditures</u>	<u>Expenditures over or under budget</u>	<u>Budgeted expenditures</u>	<u>Actual expenditures</u>	<u>Expenditures over or under budget</u>
Personnel and fringe benefits	\$247,377	\$195,537	\$-51,840	\$ 92,510	\$ 89,833	\$ -2,677
Consultant services and contracts	1,000	5,525	4,525	120,516	76,585	-43,931
Rent	-	-	-	17,200	30,600	a13,400
Travel	8,280	7,265	-1,015	10,460	5,365	-5,095
Supplies and postage	2,150	158	-1,992	12,700	6,726	-5,974
Equipment	4,725	7,120	2,395	980	1,136	156
Utilities, janitor, and miscellaneous	-	1,090	1,090	7,402	2,606	-4,796
Telephone	-	-	-	3,020	3,991	971
Interview and move personnel	-	2,206	2,206	-	1,400	1,400
Books and periodicals	<u>550</u>	<u>134</u>	<u>-416</u>	<u>750</u>	<u>312</u>	<u>-438</u>
Total direct expenditures	\$264,082	\$219,035	\$-45,047	\$265,538	\$218,554	\$-46,984
Total indirect expenditures	<u>5,182</u>	<u>43,356</u>	<u>-1,826</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total expenditures	<u>\$309,264</u>	<u>\$262,391</u>	<u>\$-46,873</u>	<u>\$265,538</u>	<u>\$218,554</u>	<u>\$-46,984</u>

^aAlthough the rental charges substantially exceeded the budgeted amount, the amount charged seemed reasonable on the basis of the square feet of space used by CACHP and the average rental rate for such space in the Charleston area.

BEST DOCUMENT AVAILABLE