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COMPTROLLER GENERAL OF THE UNITED STATES

WASHINGTON, D.C. 20548

~~CONFIDENTIAL~~

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MAY 30 1974

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B-164031(2)

The Honorable Dan Kuykendall
House of Representatives

Dear Mr. Kuykendall:

In response to your request of October 5, 1973, we reviewed the management of the North Memphis Community Health Organization, Inc. (NMCHO), which has been financed primarily by Department of Health, Education, and Welfare (HEW) family health center grants under section 314(e) of the Public Health Service Act (42 U.S.C. 246(e)). NMCHO is a family health center which is to provide ambulatory health care services to a specific population in an area with scarce medical services.

We reviewed NMCHO's grant agreements, financial management system, records of cash receipts for 1972 and 1973, records of cash disbursements for 2 months, personnel records, and minutes of board of directors meetings. We interviewed NMCHO officials and members of the board of directors. We also reviewed HEW grant records, procedures, and regulations and interviewed officials of HEW's Atlanta regional office.

On March 4, 1974, we discussed the results of our review with your office. As requested, this report briefly describes our findings.

BACKGROUND

From September 1970 through June 1972, NMCHO was staffed by volunteers, financed by donations from local individuals and organizations, and operated as a night clinic. Early in 1972 the board of directors applied to HEW for a family health center grant, which was approved in June 1972. After receiving the grant, NMCHO continued night services until early in 1973 when it began day services on a limited basis. In July 1973 NMCHO stopped all services to develop firm procedures and practices for functioning as a family health center. It resumed services on September 10, 1973, but stopped again on September 30 when the project director--who was also the only physician--resigned.

At the completion of our fieldwork on February 26, 1974, NMCHO had not resumed services but the new project director stated that he hoped to hire a physician soon and resume services by the end of March 1974. (NMCHO had an acting director from October 1, 1973, to January 31, 1974.) HEW officials said that NMCHO hired two physicians and resumed medical services in April.

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The number of patients treated by NMCHO could not be determined from available records.

FUNDING

Through December 31, 1973, NMCHO had been authorized family health center grants totaling \$898,000 for July 1, 1972, through June 30, 1974. Of that amount, \$495,000 had been received and \$415,000 spent as of December 31, 1973. At that time NMCHO had also spent \$26,000 of \$36,000 in non-Federal funds. The money was spent primarily for salaries, supplies, equipment, and facilities.

Fiscal year 1973

HEW approved an initial grant of \$380,000 in June 1972 to cover fiscal year 1973. The grant was for development purposes and included \$1,500 for patient care. The estimated value of noncash donations and volunteer services for this period was \$181,000.

During the fiscal year NMCHO received grant funds of \$356,000 and \$21,000 from other sources. (We could not determine the actual value of volunteer services and noncash donations.) Expenditures for the fiscal year were \$279,000, of which \$258,000 was charged to the grant and \$21,000 to other funds. The grant balance of \$122,000 remained available for grant purposes.

Fiscal year 1974

HEW approved a second grant of \$518,000 in June 1973 for fiscal year 1974. This grant was for operational purposes and included \$104,000 for patient care. The estimated value of other resources, including third-party reimbursement programs, was \$648,000--\$359,000 from the Medicaid program, \$117,000 from the Medicare program, and approximately \$172,000 from noncash donations and volunteer services.

From July 1, 1973, through December 31, 1973, NMCHO received grant funds of \$138,000 and \$2,300 from other sources. (We could not determine the actual value of volunteer services and non-cash donations.) Expenditures were \$162,000, of which \$157,000 was charged to the 1973 and 1974 grants and \$5,000 to other funds.

MANAGEMENT PROBLEMS

NMCHO's operating practices were deficient in fiscal and property accounting and controls over cash receipts and disbursements. Federal grant funds may have been used for purposes not allowed by HEW policies.

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We believe that unqualified personnel, noncompliance with NMCHO procurement procedures, and inadequate guidance and monitoring from HEW contributed to the inadequate management of and accounting for Federal funds.

Accounting system

NMCHO's accounting system provided financial data on a cash basis. The system did not provide for recording purchases and related accounts payable, equipment depreciation expenses and reserves, or accounts receivable. As a result, we could not determine the true financial status of NMCHO.

Under this system NMCHO charged cash disbursements--including purchases of equipment--to expense accounts. NMCHO did not keep records of equipment acquired, disposed of, or on hand. For example, NMCHO officials were unable to locate or account for six desks and an oxygen unit purchased in June 1973 at a cost of \$580. They said that three larger desks may have been substituted for the missing desks, but they were unable to verify this.

NMCHO's accounting system was operated by a bookkeeper who developed and implemented it while employed by Health Systems Management, Inc.--a NMCHO contractor from September 1972 to April 1973 which was paid for development work on the Family Health Center, including the development of a financial accounting system. This bookkeeper did not have formal training in accounting or bookkeeping, and, we believe, was not qualified to develop, implement, and operate an accounting system of the magnitude required by NMCHO. Health Systems Management, Inc., concluded in its final report to NMCHO that the bookkeeper was not competent.

NMCHO's initial Federal grant included \$30,000 which was earmarked for and restricted to implementing management information and recordkeeping systems consistent with national reporting requirements and compatible with reporting systems designed for and approved by HEW. At the time of our fieldwork, HEW had not developed national reporting requirements and had not authorized NMCHO to spend the earmarked funds.

On February 26, 1974, the new project director said that equipment was being inventoried and would be put under accounting controls. HEW officials said that the earmarked funds had been released, NMCHO had hired an accountant, and a consulting firm had installed an accounting system approved by HEW.

Controls over cash receipts
and disbursements

Receipts

Controls over cash receipts from Federal grants and patients were adequate, but controls over receipts from sources such as donations and third-party reimbursement programs were not adequate. For example, NMCHO did not furnish controllable receipts to donors and, as a result, there were no methods available for insuring that all donations were recorded or otherwise accounted for. In addition, NMCHO did not establish third-party reimbursement billings as accounts receivable. As a result, we were not able to ascertain whether all amounts due were billed, all amounts billed were received, and all amounts received were recorded or otherwise accounted for.

Procedures which NMCHO adopted during our review and actions planned by the project director should correct these deficiencies.

Disbursements

Controls over cash disbursements were inadequate because prescribed procurement procedures were not followed. Our review of June and October 1973 disbursements showed that a number of the disbursements did not have the required supporting documentation, such as invoices, receipts, and signed purchase orders or contracts. As a result, there were no assurances that disbursements were made only for approved purposes and that merchandise or services paid for were received. This is evidenced by NMCHO's inability to locate and account for the desks and oxygen unit previously mentioned. The new accounting system, if operated properly, should prevent similar occurrences.

Questionable expenditures charged to
the Federal grants

HEW officials said that HEW grant funds should not have been used for (1) prepaying for equipment and services, (2) acquiring equipment which cost more than \$1,000 without prior HEW approval, (3) paying pharmacy expenses, and (4) paying employee fringe benefits unless payments were made under formally established and consistently applied policies. The officials said that these restrictions were not contained in HEW regulations but were communicated to grantees by grant provisions, letters, or discussions.

Although we could not establish that NMCHO officials were aware of the above restrictions, the use of grant funds in the following transactions was questionable.

- NMCHO prepaid purchases of \$22,000 worth of merchandise and supplies in June 1973. The prepayments included \$5,200 for drapes, office files, and other equipment. In February 1974 these items had not been received and the vendor had declared bankruptcy. The prepayments were apparently made because of the erroneous belief that unspent grant funds had to be returned to the Government at the end of the fiscal year.
- NMCHO bought a copying machine for \$5,000 in September 1973. HEW officials said that NMCHO should have obtained prior approval for this purchase.
- During fiscal year 1973 pharmacy expenses of \$16,000, including \$5,800 for personnel salaries, which according to HEW officials were not allowable expenses under the grant, were charged to the grant.
- From December 1972 to October 1973, NMCHO paid the first project director's personal insurance premiums, which amounted to about \$2,000. In January 1973 NMCHO paid the project director \$320 for insurance benefits he would have received if he had been enrolled in employee group plans from November 1972 through February 1973.
- The final salary payment to the director in September 1973 included \$770 which represented the difference between the fringe benefits actually paid for the director and those which NMCHO would have paid by applying an authorized 15 percent to his gross pay as set forth in the grant.

HEW officials said that they were not aware of these transactions and that they would decide whether they were allowable under the grant.

Travel expenses and jury duty fees
not accounted for on a timely basis

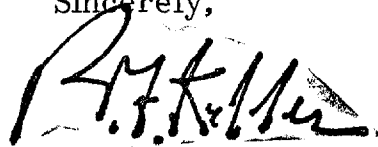
On October 31 and November 1, 1973, the acting project director received travel advances totaling \$137. He incurred and paid travel expenses of \$118. Accounting for use of the advance was not completed until January 16, 1974, which was after we started reviewing the transaction. The bookkeeper said that the acting director had not responded to her requests to account for the advance.

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In October 1973 the acting director was paid \$200 for jury duty service. Although procedures required that the jury duty fees be turned over to NMCHO, the acting director did not make such arrangements until February 22, 1974, which was after we started to review the matter. The acting director said that the check for the jury duty was received and banked by his wife without his knowledge. The bookkeeper said, however, that the acting director had previously acknowledged receiving payment but had declined to turn it over to NMCHO.

We discussed the above situations with HEW and NMCHO officials, and they generally agreed with our findings. As instructed by your office, we have not asked for formal agency comments on this report. We are sending a copy of this report to the Secretary of HEW. We plan no further distribution of this report unless you agree or publicly announce its contents.

Sincerely,

A handwritten signature in black ink, appearing to read "R. F. Keller". The signature is written in a cursive style with a large initial "R" and "K".

Comptroller General
of the United States