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WASHINGTON, D.C. 20548

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RELEASED

JUN 10 1975

The Honorable Philip A. Hart
United States Senate

Dear Senator Hart:

In response to your letters of August 29 and September 4, 1974, we reviewed (1) certain allegations of mismanagement of Federal funds at the Community Health Center in Baldwin, Michigan and (2) the actions by the Department of Health, Education, and Welfare and the grantee, Regional Health Care, Inc., to assure the fiscal integrity of the Center. This Center is being funded primarily by Department grants under section 314(e) of the Public Health Service Act (42 U.S.C. 246 (e)).

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We obtained information from the local attorney who wrote the letter containing the allegations; reviewed records at the Center; interviewed former and present employees and officials, including officials of the Michigan Department of Public Health; and studied Certified Public Accountants (CPAs') reports on the Center's operations, and discussed these reports with officials of the CPA firms. We also reviewed the Department's regional files in Chicago and interviewed Department officials. As suggested by your office, we did not follow our normal procedure of obtaining official comments on this report.

On February 21, 1975, we discussed the results of our review with your office. As requested, this report briefly summarizes the information we provided.

BACKGROUND

The Center was funded by the Office of Economic Opportunity from June 26, 1967, through October 31, 1971. In August 1971, responsibility for the Center was transferred to the Department of Health, Education, and Welfare, which has funded it since November 1, 1971. Through October 31, 1974, grants totaling about \$10.3 million for support of the Center were awarded to FIVECAP, Inc., a community action program established under section 222(a)(A) of the Economic Opportunity Act of 1964. For the fiscal year beginning November 1, 1974, the Department awarded a grant for about \$962,000 to support the Center to Regional Health Care, Inc., a nonprofit corporation established by citizens in the area being served by the Center.

The Center offers medical and dental care to residents of four counties in rural Michigan. The principal site is in Baldwin, Lake County, but a satellite is maintained in the other three counties.

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The Center also offers social services and operates a separately funded program for preventing alcohol abuse.

A firm of CPAs audited the financial statements of the Center for its first four fiscal periods; the last audit covered the year ended October 31, 1971. In addition, Department of Health, Education, and Welfare auditors reviewed costs claimed for the 13 months ended July 31, 1971. Another CPA firm has recently studied the Center's internal control system and made a financial audit for the fiscal year ended October 31, 1974. This CPA firm also helped the Center's staff improve the Center's financial management system. There were no audits of the Center's financial activities for the years ended October 31, 1972 and 1973.

ALLEGATIONS

There were 20 allegations of mismanagement in the enclosure to your letter of August 29. The allegations spanned various periods since the Center opened. We found support for 5 allegations; we could not resolve 5; while the remaining 10 lacked support. In several instances, corrective financial control measures had been instituted which, if followed, should help prevent misuse of funds. Our findings on the allegations follow, and each allegation is briefly described and identified by the number shown in your enclosure.

Allegations with support

Unpaid employee loans (1)

Some employees received advances on salaries during 1969-1971. Two employees quit owing a total of \$385, and an attempt to recover the funds was unsuccessful. The CPA firm recommended that making advance salary payments be discontinued. The practice stopped during 1971.

Annuity fund payments during employees' absences (4)

In 1973, premiums totaling \$189 were paid to a private annuity fund for two employees who were on leave without pay. They had paid into the fund through payroll deductions. The \$189 was recovered by deductions after the employees returned to work.

Nonadvertised procurement (7a)

In May 1971, a purchase of nine automobiles was based on three oral bids. The Office of Economic Opportunity approved the purchase from the low bidder.

Theft of office equipment (7c)

Inventory records showed that a Project Administrator, who left in August 1973, had a briefcase. Another employee, who left in October 1973, had several items, including a calculator, camera, and slide projector. No replies have been received to letters sent by the Center requesting the return of these items.

Forging of a signature (12)

Checks issued by the Center required two authorized signatures. Sometime before July 1971, because of the unavailability of one of the authorized signers, some checks were issued with one of the required signatures being provided by either one of two unauthorized employees of the Center. One of the two employees, a payroll clerk, said she was under no duress to sign and that this was done at the request of a former Comptroller who also signed the checks. The employee informed us that the signing was not concealed, and it occurred only to expedite payment to vendors. The other employee, who is no longer with the Center, could not be reached for comment. Because of the difficulty in identifying which checks were improperly signed, and in locating records of invoices and purchases for the year preceding July 1971, we could not determine whether the expenditures were proper.

Unresolved allegations

The following allegations involve events that could have occurred but would be difficult to prove, due to the passage of time and/or insufficient documentation.

Theft of dental equipment (7d)

Three witnesses alleged that two dentists had taken dental hand tools when they left the Center early in 1974. We interviewed one witness, a former dental employee, but this person had no direct evidence of theft by either dentist. One of the dentists became Director of the Dental Department before leaving. Available purchase records indicated no evidence of excessive procurements of dental tools while he was Director. However, inventory controls were weak. Because of our inquiry, the current Dental Director is instituting inventory control procedures for this department.

Padding of payroll (10)

It was alleged that some supervisors approved "doctored" timesheets for hourly employees in 1972 and 1973. After the fact, it is impossible to detect irregularities from the timesheets. Timeclocks for hourly employees were installed in November 1974.

Padding of compensatory time (11)

It was alleged that a supervisor credited a subordinate with unearned compensatory time. We could not locate either the record of compensatory time or the Personnel Committee minutes of March 14, 1973, when the two employees were supposedly confronted with this allegation. Both subsequently resigned, and severance pay totaling \$1,773 was denied them.

Free medical care for favored employees (13)

It was alleged that on some occasions, medical and dental services were provided free to certain employees. There was no specific policy on health services provided to employees until December 1974, when the Center stated that employees and their families would be treated the same as others in the community, except that:

1. Employees would not be billed for required annual TB tests and other screening services, such as blood tests, urinalysis, and electrocardiograms.
2. Employees would not be billed for preventive services, such as flu shots and gamma globulin.
3. Employee time spent being treated or examined at the Center would not be charged to sick leave.
4. Employees who qualify as partial-pay (percentage) patients may apply their percentage to the portion of their dental bills not covered by insurance.

Narcotics abuse (17)

It was alleged that there had been excessive purchases of narcotic drugs and an incident involving missing narcotic drugs. A State police detective confirmed that there had been an unsolved incident of missing narcotic drugs in 1969 or 1970. The Department of Health, Education, and Welfare reviewed drug purchases for a 6-month period ended July 1974 and found no excess. The Department recommended improvements in security procedures. At the time of our visit, security appeared adequate.

Allegations with little or no support

There was a lack of support for the remaining allegations.

Rent paid for former employee (2)

The employee left the Center in October 1970. A former operator of a local motel recalls that, around this time, an employee of the Center--whose name he could not recall--moved out without paying an \$80 bill. The motel operator said the bill was subsequently paid, but cannot recall how. We could not locate the Center's expenditure records for October 1970, but we did scan records for November 1970 through October 1971 and found no such payment. Two former officials denied that the bill was paid with Center funds.

Items purchased for personal use
of a Project Administrator (7b)

Some items, which could have had personal as well as business use, were purchased in 1973. However, an inventory taken after the Project Administrator left the Center in August 1973 showed him with only the brief case discussed above under allegation 7c.

Unnecessary payments to county (9)

A former Director of the Center said the county had been paid \$4,400 a year to have a nurse visit patients in their homes during 1970 and 1971. However, the Office of Economic Opportunity considered this service necessary.

Illegal wiretap (15)

This allegation was based on hearsay. Various Center officials denied that it occurred.

Other

We found no support for the allegations relating to paychecks to a prisoner (3), padding of the budget (5a and 5b), complete failure to collect accounts receivable (6), duplication of health services (8), payment for personal telephone (14), and improper payment for a pharmacist (16).

With respect to accounts receivable, the Center's cash receipts journal showed \$635,688 was received from patients and third-party payors from November 1, 1970, through October 31, 1974. However, there have been problems assuring that all chargeable services are billed and collected. A CPA firm has recently recommended procedures to solve the billing and collecting problems.

CORRECTIVE ACTIONS

The Department of Health, Education, and Welfare and Regional Health Care, Inc., the grantee, were taking corrective actions to assure the fiscal integrity of the Center. The primary action was engaging a CPA firm for a financial audit of the year ended October 31, 1974, and for managerial consultation services. On February 24, 1975, the CPA firm issued a report on deviations from generally accepted accounting and internal control procedures. Another report will be issued on the results of the financial audit.

The report on deviations from generally accepted procedures commented on payroll, travel expenses, purchase of goods and services, and accounts receivable. According to the report, the grantee has taken or is taking corrective actions on all deviations relating to expenditures, but the recommended procedures for accounts receivable have not been fully implemented.

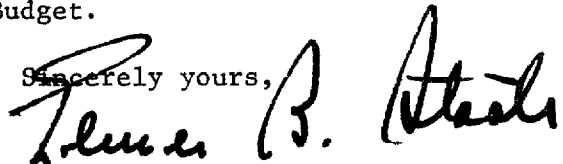
The Department has also requested the grantee to prepare internal control procedures for certain expenditures. The grantee had prepared or was preparing these procedures.

CONCLUSIONS AND RECOMMENDATIONS

There apparently have been some errors of judgment by management as well as some breakdown in internal financial management controls at the Center. The actions being taken by the Department of Health, Education, and Welfare and the new grantee will improve the fiscal management of the Center. However, we recommend that the Secretary require an annual financial audit and review of internal controls at the Center to avoid external review gaps, such as occurred in fiscal years 1972 and 1973.

As agreed with your office, we are sending copies of this report to the Secretary of Health, Education, and Welfare. Copies are also being sent to the House and Senate Committees on Government Operations; to the House and Senate Committees on Appropriations; and to the Director, Office of Management and Budget.

Sincerely yours,



Comptroller General
of the United States