

Department of Health and Human Services

**OFFICE OF  
INSPECTOR GENERAL**

**HIDALGO MEDICAL SERVICES  
DID NOT COMPLY WITH ALL  
FEDERAL REQUIREMENTS  
RELATED TO ITS CAPITAL  
DEVELOPMENT GRANT**

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**Daniel R. Levinson**  
Inspector General  
January 2016  
A-06-14-00056

# *Office of Inspector General*

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## EXECUTIVE SUMMARY

***Hidalgo Medical Services did not comply with all applicable Federal requirements and grant terms related to its Affordable Care Act-funded capital development grant.***

### WHY WE DID THIS REVIEW

The Patient Protection and Affordable Care Act (ACA) established a Community Health Center Fund administered by the Health Resources and Services Administration (HRSA) that provides \$9.5 billion in grant funds for operation and expansion of the community health center program. An additional \$1.5 billion was authorized and appropriated for construction and renovation of community health centers nationwide. HRSA awarded Hidalgo Medical Services (HMS), a not-for-profit health center in New Mexico, \$8,715,094 of these funds to construct a new community health center in Silver City, New Mexico, and to construct a senior wellness center (the wellness center) in Lordsburg, New Mexico.

As part of its ACA oversight activities, the Office of Inspector General is conducting a series of reviews of certain ACA-funded capital development grants because of the potential risks associated with expansion and construction projects, such as a change of scope, scheduling delays, and cost overruns.

The objective of this review was to determine whether HMS complied with applicable Federal requirements and grant terms related to its ACA-funded capital development grant.

### BACKGROUND

The Health Center Program is authorized under section 330 of the Public Health Service Act (42 U.S.C. § 254b). The program provides primary health care services to medically underserved communities and vulnerable populations with limited access to health care through planning and operating grants to health centers. Within the U.S. Department of Health and Human Services (HHS), HRSA administers the program.

Section 10503 of the ACA, as amended, established a Community Health Center Fund that provides \$9.5 billion over 5 years (Federal fiscal years (FYs) 2011 through 2015) for operation and expansion of the community health center program. An additional \$1.5 billion over 5 years (FYs 2011 through 2015) was authorized and appropriated for construction and renovation of community health centers nationwide.

In October 2010, HMS, a Federally Qualified Health Center network, was awarded \$8,715,094 in capital development grant funds under the ACA: \$7,817,129 to construct a community health center in Silver City and \$897,965 to construct a wellness center in Lordsburg.

## **WHAT WE FOUND**

HMS did not comply with all applicable Federal requirements and grant terms related to its ACA-funded capital development grant. Specifically:

- HMS spent \$897,965 to construct the wellness center but did not use the wellness center for community health center purposes, as described in its grant application.
- HMS's financial management system neither adequately identified the source and application of funds for HHS-sponsored activities nor provided effective control over and accountability for all funds. In addition, HMS did not record all grant award payments in accounting records separate from the records of other funds.
- HMS did not maintain sufficient records for equipment acquired with Federal funds.
- HMS did not justify its decision not to use a competitive bidding process in selecting an equipment vendor.

HMS did not provide the community health services described in the application because of changes in management after submission of the grant application and construction of the building. Current management told us that HMS does not intend to provide services as described in the grant application because a medical clinic nearby already provides a broad range of health-related services. In addition, a lack of awareness of Federal grant policies and procedures led to inadequate financial, property management, and procurement controls over grant funds.

## **WHAT WE RECOMMEND**

We recommend that HRSA:

- either (1) require HMS to refund \$897,965 to the Federal Government for the unallowable grant expenses for the wellness center or (2) provide HMS with disposition instructions for the wellness center and, upon disposition, require HMS to refund to the Federal Government either the current wellness center's fair market value or the \$897,965 Federal share of the wellness center's cost, whichever is lower; and
- work with HMS to strengthen its financial, property management, and procurement controls over grant funds.

## **HIDALGO MEDICAL SERVICES COMMENTS AND OUR RESPONSE**

In written comments on our draft report, HMS officials said that they did not concur with our recommendations. However, regarding our second recommendation, HMS identified corrective actions that it had taken and stated that the recommendation has effectively been accomplished. After reviewing HMS's comments, we maintain that our findings and recommendations are valid.

## **HEALTH RESOURCES AND SERVICES ADMINISTRATION COMMENTS**

In written comments on our draft report, HRSA concurred with our recommendations.

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## INTRODUCTION

### WHY WE DID THIS REVIEW

The Patient Protection and Affordable Care Act (ACA)<sup>1</sup> established a Community Health Center Fund administered by the Health Resources and Services Administration (HRSA) that provides \$9.5 billion in grant funds for operation and expansion of the community health center program. An additional \$1.5 billion was authorized and appropriated for construction and renovation of community health centers nationwide. HRSA awarded Hidalgo Medical Services (HMS), a not-for-profit health center in New Mexico, \$8,715,094 of these funds to construct a new community health center in Silver City, New Mexico, and to construct a senior wellness center (the wellness center) in Lordsburg, New Mexico.

As part of its ACA oversight activities, the Office of Inspector General is conducting a series of reviews of certain ACA-funded capital development grants because of the potential risks associated with expansion and construction projects, such as a change of scope, scheduling delays, and cost overruns.

### OBJECTIVE

Our objective was to determine whether HMS complied with applicable Federal requirements and grant terms related to its ACA-funded capital development grant.

### BACKGROUND

#### The Health Center Program

The Health Center Program is authorized under section 330 of the Public Health Service Act (PHSA) (42 U.S.C. § 254b). The program provides primary health care services to medically underserved communities and vulnerable populations with limited access to health care through planning and operating grants to health centers. Within the U.S. Department of Health and Human Services (HHS), HRSA administers the Health Center Program.

#### Patient Protection and Affordable Care Act Funding of Community Health Centers

Section 10503 of the ACA provided \$11 billion over 5 years (Federal fiscal years (FYs) 2011 through 2015) for operation, expansion, construction, and renovation of community health centers nationwide.<sup>2</sup>

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<sup>1</sup> The Patient Protection and Affordable Care Act, P.L. No. 111-148 (Mar. 23, 2010), as amended by the Health Care and Education Reconciliation Act of 2010, P.L. No. 111-152 (Mar. 30, 2010), is known as the Affordable Care Act.

<sup>2</sup> Of this amount, \$9.5 billion was targeted to support ongoing community health center operations, create new community health center sites, and expand preventive and primary health care services at existing community health center sites. The remaining \$1.5 billion was to support major construction and renovation projects at community health centers.

In FYs 2011 through 2014, HRSA awarded approximately \$1.5 billion in capital development grant funding to health centers. Capital development grants were available to address immediate and urgent capital needs or to support the cost of alteration/renovation or construction for facilities that provide health services to medically underserved communities and vulnerable populations. The grants are one-time awards, with no additional funding provided for operations.

### **Hidalgo Medical Services**

HMS, a not-for-profit Federally Qualified Health Center (FQHC)<sup>3</sup> network that provides comprehensive primary care, dental, mental health, and family support services in New Mexico, was awarded \$8,715,094 in capital development grant funds under the ACA: \$7,817,129 to construct a community health center in Silver City and \$897,965 to construct a wellness center in Lordsburg.

Regarding the wellness center, HMS originally proposed a joint venture with Hidalgo County to expand the existing health center. The health center has five dental chairs, nine medical exam rooms, and four mental health offices; the grant application requested funds to add two medical exam rooms, mental health group space, family support offices, a pharmacy, an exercise facility, a kitchen, and a dining area. Because of engineering issues, HMS determined that it was not feasible to expand the existing health center; therefore, HMS amended its grant application and constructed a stand-alone building across from the existing facility. HMS's goal for the new wellness center was to improve patient outcomes through an added focus on clinical visits, nutrition education and services, age-appropriate physical activity, and enhanced patient support. In the amended grant application, HMS projected that the wellness center would provide care for 350 patients.

By accepting these ACA-funded capital development grant funds, HMS agreed to submit updates on its grant-related activities and required reports to HRSA, including status reports on grant-established milestone construction dates and financial activities.

See Appendix A for details on the Federal requirements related to grants awarded to community health centers.

### **HOW WE CONDUCTED THIS REVIEW**

We reviewed the \$8,715,094 capital development grant awarded by HRSA on October 6, 2010, to HMS for October 1, 2010, through September 29, 2013. Our audit also determined whether HMS (1) had adequate financial management controls over capital development grant funds, (2) followed procurement standards in accordance with Federal requirements for construction contracts, and (3) met grant-established project milestone dates.

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<sup>3</sup> FQHCs are public and private nonprofit health care organizations receiving grants under section 330 of the Public Health Service Act. FQHCs qualify for enhanced reimbursement from Medicare and Medicaid, as well as other benefits. FQHCs must serve an underserved area or population, offer a sliding fee scale, provide comprehensive services, have an ongoing quality assurance program, and have a governing board of directors.

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 objectives.

Appendix B contains the details of our audit scope and methodology.

## **FINDINGS**

HMS did not comply with all applicable Federal requirements and grant terms related to its ACA-funded capital development grant. Specifically:

- HMS spent \$897,965 to construct the wellness center but did not use the wellness center for community health center purposes, as described in its grant application.
- HMS's financial management system neither adequately identified the source and application of funds for HHS-sponsored activities nor provided effective control over and accountability for all funds. In addition, HMS did not record all grant award payments in accounting records separate from the records of other funds.
- HMS did not maintain sufficient records for equipment acquired with Federal funds.
- HMS did not justify its decision not to use a competitive bidding process in selecting an equipment vendor.

HMS did not provide the community health services described in the application because of changes in management after submission of the grant application and construction of the building. Current management told us that HMS does not intend to provide services as described in the grant application because a medical clinic nearby already provides a broad range of health-related services. In addition, a lack of awareness of Federal grant policies and procedures led to inadequate financial, property management, and procurement controls over grant funds.

### **SENIOR WELLNESS CENTER NOT USED FOR COMMUNITY HEALTH CENTER'S PURPOSES, AS DESCRIBED IN THE HMS GRANT APPLICATION**

The Notice of Grant Award was issued in support of the application for a capital development project. Program terms require that the space be operated by the grant recipient to support services consistent with section 330 of the PHSA. The PHSA states that a health center is required to provide primary health services, which include basic health services such as diagnostic laboratory, radiological, preventative, and emergency medical services. The Act requires health centers to provide patient case management services and to educate patients and the general population on the availability and use of health services. Additionally, real property purchased with Federal grant funds must be used for the authorized purpose of the project (45 CFR § 74.32(a)). When the real property is no longer needed for this purpose, the grantee must request disposition instructions from the awarding agency (45 CFR § 74.32(c)). The recipient

may be permitted to retain title after it compensates the Federal Government for the percentage of the current fair market value of the property attributable to the Federal share in the project (45 CFR § 74.32(c)(1)). However, the recipient may be directed to sell the property and pay the Federal Government for the percentage of the current fair market value of the property attributable to the Federal share in the project (45 CFR § 74.32(c)(2)).

In its capital development grant application, HMS projected that the wellness center would provide services to 350 patients; offer a broad range of nutrition, exercise, additional mental health, physical therapy, and medical services; and create 13 full-time-equivalent employee positions.

Although the wellness center was completed in October 2012, HMS had provided medical services to only nine patients as of July 2014. Further, HMS was not providing the mental health and physical therapy services described in its grant application, and HMS officials stated that HMS did not intend to provide those services. In addition, the wellness center created less than one full-time-equivalent employee position, which comprised the part-time positions of a physician, chiropractor, and janitor. Although the wellness center was providing medical services, it was doing so only 8 hours per month.

The wellness center included medical exam rooms, exercise and activity rooms, and a fully equipped kitchen used to serve meals to the county's senior citizens and to prepare meals for a meal delivery program. This state-of-the-art kitchen included a Randell Blast Chiller, which, according to a New Mexico state official, was the only one of its kind in the State. The justification provided in the grant application for such a high-end kitchen was that the grantee needed it to provide nutrition education and services to improve the physical and emotional health of seniors in the area. At the time of our review, HMS was not providing nutritional training through this kitchen, as stated in the grant application; rather, HMS was using the kitchen to provide county-funded services. Because HMS was not using the kitchen for nutrition education, HMS did not meet the requirements of section 330 of the PHSA.

Current management informed us that it does not see the need for the services described in the grant application because the Lordsburg Medical Clinic across the parking lot is adequately staffed and provides medical, mental health, dental, and pharmaceutical services. HMS officials said that they did not intend to staff the wellness center with a full-time physician because the additional costs were not justified. Current management told us that it does not intend the wellness center to be used as described in the grant application. On the basis of our review, we determined that the grantee materially failed to comply with the grant terms and conditions by not providing services consistent with the grant application and section 330 of the PHSA and by not using the wellness center for the authorized purposes of the project.

## **INADEQUATE FINANCIAL MANAGEMENT SYSTEM**

Grant recipients must maintain financial management systems that provide accurate, current, and complete disclosure (45 CFR § 74.21(b)(1)). Recipients' financial management systems are required to have records that identify adequately the source and application of funds for HHS-

sponsored activities (45 CFR § 74.21(b)(2)).<sup>4</sup> The system should provide effective control over and accountability for all funds, property, and other assets, and grantees must adequately safeguard all such assets and assure that they are used solely for authorized purposes (45 CFR § 74.21(b)(3)). In addition, the grantee must record all grant award payments in accounting records separately from the records of all other funds, including funds derived from other grant awards (42 CFR § 51c.112(a)).

HMS's financial management system did not provide accurate records that identified the source and application of funds for HHS-sponsored activities. HMS recorded capital development grant funds with Health Care and Other Facilities (HCOF) Construction program<sup>5</sup> grant funds in a single general ledger account for the Silver City community health center. Because the grant funds were received from the same funding agency and for the same project, HMS officials believed that the funds could be recorded in one general ledger account. HMS did not record capital development grant funds separately from HCOF funds in its accounting system.<sup>6</sup> HMS did not set up the accounting system according to Federal regulations. Therefore, we were unable to determine whether the capital development grant funds were used for their intended purposes.

HMS did not maintain documentation identifying the source and application of funds transferred from its savings account. Federal funds were drawn from the HHS Payment Management System into HMS's savings account, which included funds from other funding sources. HMS then transferred funds from the savings account to the operational account without identifying the source of the funds. Therefore, we were unable to ensure that the capital development costs were paid with capital development grant funds.

Additionally, the HMS finance official authorized to withdraw Federal funds from the HHS Payment Management System was responsible for transferring the Federal funds from the savings account to the operational account. HMS did not have effective controls in place to safeguard all assets. Authorizing withdrawals from the HHS Payment Management System and transferring grant funds among the grantee's accounts should have been performed by different individuals to avoid financial risk to the organization.

These issues occurred because HMS did not have internal accounting procedures to provide adequate controls over the transfer of funds.

In addition, HMS incorrectly reported equipment expenses on the wellness center's final budget justification. HMS reported that it used Hidalgo County funds to purchase equipment for \$98,522; however, invoices showed that HMS used Federal funds to purchase the equipment. The purchases included items such as a Randall Blast Chiller, Globe Stand Mixer, porcelain

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<sup>4</sup> These records must contain information pertaining to Federal awards, authorizations, obligations, unobligated balances, assets, outlays, income, and interest.

<sup>5</sup> The HCOF Construction program provides congressionally directed funds to health facilities for construction-related activities or capital equipment purchases. HRSA administers the HCOF Construction program.

<sup>6</sup> HMS had external Excel spreadsheets that separately tracked both funding sources and their expenditures; however, these spreadsheets were not derived from its accounting system.

dishwasher, and convection ovens, all of which were used for the county program operated in the wellness center. HMS officials stated that this occurred because of human error.

### **INSUFFICIENT EQUIPMENT RECORDS**

Federal property management standards require grantees to maintain records for equipment acquired with Federal funds and for federally owned equipment. Further, equipment owned by the Federal Government must have a tag indicating that it is federally owned (45 CFR § 74.34).

HMS did not properly identify equipment purchased with grant funds at the community health center. In addition, at the community health center and the wellness center, HMS did not include the funding source(s) for property in its inventory records and did not indicate whether title to the property belonged to it or the Federal Government. HMS officials stated that these issues occurred because of a lack of awareness of Federal grant policies and procedures. HMS officials told us they were working to have staff identify and tag the inventory and update inventory records to provide correct information. This was not completed during our fieldwork.

### **LACK OF JUSTIFICATION FOR NOT USING A COMPETITIVE BIDDING PROCESS**

Grant recipients must establish written procurement procedures (45 CFR § 74.44). Federal grant regulations require that certain grantee procurements include a justification when competitive bids or offers are not obtained (45 CFR § 74.46). HMS Financial Policies and Procedures FIN-201h requires documentation signed by the chief financial officer justifying not using a competitive bidding process. Federal regulations also state that all procurement transactions must be conducted in a manner to provide, to the maximum extent practical, open and free competition (45 CFR § 74.43).

HMS was unable to provide justification for a lack of competition when it selected its dental equipment vendor for the community health center. HMS officials provided an unsigned guarantee for purchase letter<sup>7</sup> as support. However, this letter did not contain any information justifying the lack of competition for the dental equipment purchased. HMS incorrectly believed that the letter provided justification for not using a competitive bidding process.

In addition, HMS unnecessarily incurred costs because it failed to follow its competitive bidding process as established by its HMS Finance Policies and Procedures. HMS did not solicit bids before contracting to complete a State Historical Preservation Office letter.<sup>8</sup> HMS officials told us that they were unaware of its policy for soliciting bids<sup>9</sup> for completing the State Historical

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<sup>7</sup> The guarantee for purchase letter provided a pledge and assurance that HMS had cash available to cover the purchase price of the dental equipment.

<sup>8</sup> Under section 106 of the National Historic Preservation Act, HRSA requires that all new construction and expansion projects include an assessment of the property to determine whether it is historic, and if so, whether the project would cause any potential adverse effects. Grantees may not draw down any project funds until HRSA receives this assessment.

<sup>9</sup> Hidalgo Medical Services Accounting Policies and Procedures FIN-201 requires competitive sealed bids for a single purchase in excess of \$5,000.

Preservation Office letter. After HMS officials assigned a wellness center project manager, that manager informed HMS of the requirement. After bid solicitation, HMS awarded the contract to another organization. However, HMS had already paid \$1,746 for work completed before the solicitation of bids.

These issues occurred because of a lack of controls to ensure that adequate documentation was maintained and because of a lack of understanding of the procurement standards contained in the HHS grant regulations and in HMS policies.

## **RECOMMENDATIONS**

We recommend that HRSA:

- either (1) require HMS to refund \$897,965 to the Federal Government for the unallowable grant expenses for the wellness center or (2) provide HMS with disposition instructions for the wellness center and, upon disposition, require HMS to refund to the Federal Government either the current wellness center's fair market value or the \$897,965 Federal share of the wellness center's cost, whichever is lower; and
- work with HMS to strengthen its financial, property management, and procurement controls over grant funds.

## **HIDALGO MEDICAL SERVICES COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE**

### **HIDALGO MEDICAL SERVICES COMMENTS**

In written comments on our draft report, HMS did not concur with our recommendations. Regarding our recommendation to refund \$897,965, HMS officials stated that the wellness center is now being used for alcohol and substance abuse therapy, group sessions, individual and family counseling, and intensive outpatient therapy. The officials stated that although these services are not comprehensive primary care, they are vital to the community. According to HMS, these services are available 40 hours a week, and there is a 24-hour crisis line. In addition, HMS proposed refunding the \$98,522 in Federal funds used to purchase equipment for the county program operated in the wellness center.

Regarding our recommendation to strengthen financial, property management, and procurement controls over grant funds, HMS officials identified corrective actions that they have taken to strengthen controls. HMS said that it revised its accounting structure to allow for individual grant and program recording in the general ledger and that it completed a physical inventory of all fixed assets in 2015. HMS also said that it added to its accounting system a fixed-asset accounting module that allows tracking of each asset by location, service line, program, and grant. HMS reaffirmed its policy of complying with Federal guidelines on competitive bids and documentation. HMS stated that these policies and procedures have been addressed in conjunction with HRSA.

HMS's comments are provided in their entirety as Appendix C.

## **OFFICE OF INSPECTOR GENERAL RESPONSE**

After reviewing HMS's comments, we maintain that our findings and recommendations are valid. Program terms require that the wellness center be operated by the grant recipient to support services consistent with section 330 of the PHSA. Additionally, real property purchased with Federal grant funds must be used for the authorized purpose of the project (45 CFR § 74.32(a)). In its comments, HMS did not provide documentation that allowed us to determine whether the current use of the wellness center for alcohol and substance abuse therapy, group sessions, individual and family counseling, and intensive outpatient therapy is consistent with section 330 of the PHSA and with the center's authorized purpose. Additionally, on the basis of the information HMS provided, we are unable to determine whether the community is using the therapy and counseling services. We suggest that HRSA determine whether the community is using these services and whether they are consistent with section 330 of the PHSA and with the authorized purpose of the project. If HRSA determines that the wellness center is being used by the community to support services consistent with section 330 of the PHSA and with its authorized purpose, then we agree with HMS's proposal to refund only the \$98,522 in Federal funds that it used to purchase equipment for the county program operated in the wellness center.

Though HMS did not concur with our second recommendation, it identified corrective actions it has taken to strengthen controls. During the audit, we reviewed the accounting processes manual listing policies and procedures that were in place at the time of the award, and our findings are based on those policies and procedures and Federal regulations. We did not determine whether the current accounting processes manual corrected the issues identified. Additionally, HMS did not provide documentation that allows us to determine whether the corrective actions adequately strengthen its financial, property management, and procurement controls over grant funds.

## **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 D.

## **OTHER MATTERS**

During our review, HMS was unable to provide documentation of board approval for submission of the capital development grant application or the Facility Investment Project applications. HMS officials stated that the approval was not included in the minutes because of an oversight.

## **APPENDIX A: FEDERAL REQUIREMENTS RELATED TO COMMUNITY HEALTH CENTER GRANTEES**

### **FEDERAL REGULATIONS FOR COMMUNITY HEALTH CENTERS**

Regulations (45 CFR § 74.27(a)) require that the allowability of costs of a nonprofit organization in receipt of Federal funds be determined in accordance with Office of Management and Budget Circular A-122, *Cost Principles for Non-Profit Organizations* (codified at 2 CFR part 230). To be allowable, costs must be reasonable and allocable (2 CFR part 230, App. A., section A.2.a.). The grantee must also comply with the requirements for health centers in 42 U.S.C. § 254b and implementing regulations at 42 CFR part 51c.

Regulations (45 CFR § 74.21(b)(2)) require recipients' financial management systems to have records that identify adequately the source and application of funds for HHS-sponsored activities. These records must contain information pertaining to Federal awards, authorizations, obligations, unobligated balances, assets, outlays, income, and interest.

Regulations (45 CFR § 74.21(b)(1)) state that grantees must maintain financial management systems that provide accurate, current, and complete disclosure of the financial results of each HHS-sponsored project or program. The system must also provide accounting records that are supported by source documentation (45 CFR § 74.21(b)(7)). The system should provide effective control over and accountability for all funds, property, and other assets. Recipients must adequately safeguard all such assets and assure that they are used solely for authorized purposes (45 CFR § 74.21(b)(3)).

Regulations state that real property purchased with Federal grant funds must be used for the authorized purpose of the project (45 CFR § 74.32(a)). When the real property is no longer needed for this purpose, the grantee must request disposition instructions from the awarding agency (45 CFR § 74.32(c)). The recipient may be permitted to retain title without further obligation to the Federal Government after it compensates the Federal Government for that percentage of the current fair market value of the property attributable to the Federal share in the project (45 CFR § 74.32(c)(1)). The recipient may be directed to sell the property under guidelines provided by the HHS awarding agency and pay the Federal Government for that percentage of the current fair market value of the property attributable to the Federal share in the project (after deducting actual and reasonable selling and fix-up expenses, if any, from the sales proceeds) (45 CFR § 74.32(c)(2)).

Regulations (45 CFR § 74.43) state that all procurement transactions must be conducted in a manner to provide, to the maximum extent practical, open and free competition.

Regulations (45 CFR § 74.44) state that all recipients must establish written procurement procedures. Recipients must, on request, make available for the HHS awarding agency, pre-award review procurement documents (e.g., requests for proposals or invitations for bids, and independent cost estimates) when the procurement is expected to exceed the simplified acquisition threshold fixed at 41 U.S.C. § 403(11) (currently \$100,000) and is to be awarded

without competition, or only one bid or offer is received in response to a solicitation (45 CFR § 74.44(e)(2)).

Regulations (45 CFR § 74.46) state that procurement records and files for purchases in excess of the simplified acquisition threshold must include the following, at a minimum: (a) the basis for contractor selection, (b) a justification for lack of competition when competitive bids or offers are not obtained, and (c) the basis for award cost or price.

Regulations (45 CFR § 74.34(f)(1)) require that records be kept for equipment acquired with Federal funds and federally owned equipment and include the following information:

- a description of the equipment;
- manufacturer's serial number, model number, Federal stock number, national stock number, or other identification number;
- source of the equipment, including the award number;
- whether title vests in the recipient or the Federal Government;
- acquisition date (or date received, if the equipment was furnished by the Federal Government) and cost;
- information from which one can calculate the percentage of HHS's share in the cost of the equipment (not applicable to equipment furnished by the Federal Government);
- location and condition of the equipment and the date the information was reported;
- unit acquisition cost; and
- ultimate disposition data, including date of disposal and sales price or the method used to determine current fair market value where a recipient compensates the HHS awarding agency for its share.

Regulations (45 CFR § 74.34(f)(2)) require that equipment owned by the Federal Government be identified to indicate that it is federally owned.

Regulations (45 CFR § 74.62(a)) provide that if a recipient materially fails to comply with the terms and conditions of an award, whether stated in a Federal statute or regulation, an assurance, an application, or a notice of award, the HHS awarding agency may take enforcement action, including a disallowance of funds.

Regulations (42 CFR § 51c.112(a)) require that all grant award payments be recorded by the grantee in accounting records separate from the records of all other funds, including funds derived from other grant awards. For each project, the grantee must account for the total of all

amounts paid, as well as other funds and in-kind contributions, by presenting evidence satisfactory of expenditure for direct and indirect costs.

Section 330 of the PHSA (42 U.S.C. § 254b(a)(1)) defines a health center as an entity that “serves a population that is medically underserved, or a special medically underserved population . . . by providing, either through the staff and supporting resources of the center or through contracts or cooperative arrangements (A) required primary health services (as described in subsection (b)(1) of this section); and (B) as may be appropriate for particular centers, additional health services (as defined in subsection (b)(2) of this section) necessary for the adequate support of the primary health services required under subparagraph (A); for all residents of the area served by the center.”

Section 330 of the PHSA (42 U.S.C. § 254b(b)(1)(A)) states that “required primary health services” means basic health services that consist of (1) health services related to family medicine, internal medicine, pediatrics, obstetrics, or gynecology that are furnished by physicians and where appropriate physician assistants, nurse practitioners, and nurse midwives; (2) diagnostic laboratory and radiology services; (3) preventative health services; (4) emergency medical services; and (5) pharmaceutical services as may be appropriate. Additionally, referrals to providers of medical services and other health-related services and patient case management services, services that enable individuals to use the services of the health center, and education of patients and the general population are included in the term “required primary health services.”

**CAPITAL DEVELOPMENT PROGRAM REQUIREMENTS FOR COMMUNITY HEALTH CENTERS, PROGRAM TERMS 2, IN THE NOTICE OF AWARD FOR HIDALGO MEDICAL SERVICES**

The funded project(s) will not be used to support space that will be used and/or rented by other entities. This space will be operated by the grant recipient to support services consistent with section 330 of the PHSA.

## **APPENDIX B: AUDIT SCOPE AND METHODOLOGY**

### **SCOPE**

We reviewed the capital development grant for \$8,715,094 awarded on October 6, 2010, to HMS for October 1, 2010, through September 29, 2013.<sup>10</sup> We reviewed costs claimed on expenditure reports, procurement of the construction contracts, and patient capacity and utilization.

We did not review the overall internal control structure of HMS or HRSA's grant management program. Rather, we reviewed only those controls related to our objective.

We performed fieldwork at HMS's office in Lordsburg, New Mexico.

### **METHODOLOGY**

To accomplish our objective, we:

- reviewed applicable Federal laws, regulations, and guidance;
- met with HRSA officials to gain an understanding of the ACA community health center program and funding requirements;
- met with HMS officials to gain an understanding of HMS's accounting system, policies and procedures for managing Federal grant funds, and health center grant activities;
- obtained and reviewed HMS's ACA capital development grant application package, approved design documents and timeline for project completion, Notice of Grant Award documents, and applicable amendments;
- reviewed HMS's financial management controls, procurement policies and procedures, and construction contracts;
- reviewed costs totaling \$8,715,094 claimed on grant expenditure reports to determine whether costs were allowable for reimbursement, including construction and consultant costs and equipment purchases;
- compared budgeted amounts to actual grant expenditures and analyzed discrepancies;
- identified any costs transferred to or from the grant;
- determined whether HMS met established milestone dates for project completion;

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<sup>10</sup> The original grant period was from October 1, 2010, through September 30, 2012. The budget and project period end dates were extended and approved by HRSA until September 29, 2013. (See Notice of Award No. C8ACS21316-01-07.)

- determined whether HMS met its projected increases in patient capacity and delivery of health services;
- determined whether health services were provided as outlined by the grant terms; and
- discussed the results of our review with HMS and HRSA officials.

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 objectives.

## APPENDIX C: HIDALGO MEDICAL SERVICES COMMENTS



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P.O. Box 550  
Lordsburg, NM 88045  
575 542-8384 Fax: 575 542-8387  
[www.hmsnm.org](http://www.hmsnm.org)

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June 30, 2015

Patricia Wheeler,  
Regional Inspector General for Audit Services  
HHS/OIG/OAS/R6  
1100 Commerce Street, Room 632  
Dallas, Texas 75242

Re: Report Number A-06-14-00056

Dear Ms. Wheeler:

Enclosed please find our written response to your Report dated June 22, 2015. Hidalgo Medical Services (HMS) does not concur with the Recommendations as stated in the Report. HMS respectfully requests that you consider our response and agree to our Proposal. Thank you.

Harriet Brandstetter

Harriet Brandstetter, CEO  
Hidalgo Medical Services  
530 DeMoss Street  
Lordsburg, New Mexico 88045

*Improving the Quality of Life of the People of Southwest New Mexico*

### **Response to OIG Recommendation 1**

Recommendation that HRSA: either (1) require HMS to refund to the Federal Government \$897,965 or (2) provide disposition instructions to HMS and, upon disposition, refund to the Federal Government either the current fair market value or the \$897,965, whichever is lower.

Response: nonconcurrence.

The Facility in question is now being utilized to provide Alcohol and Substance Abuse therapy, group sessions, individual and family counseling and intensive outpatient therapy. The services are provided Monday through Friday 40 hours a week with a 24 hour crisis line.

While this is not comprehensive primary care, Hidalgo Medical Services (HMS) believes this is a vital service to the Community. It is the position of HMS, that the Facility is being utilized for a purpose that OIG and HRSA should take into consideration and allow HMS to utilize the building for this purpose. Primary care – medical and dental- are available next door.

Three months ago, the Core Service Agency (CSA) mental health organization that was providing these services in New Mexico, and in this part of the State, informed the Governor that they were leaving. This would mean thousands of mental health patients would be left without mental health care. HMS was the only Organization that qualified to apply to provide these services in this service area. The services provided include: coordination of care and provide essential services to children, youth and adults who have a serious mental illness, severe emotional disturbance, or dependence on alcohol or drugs. The CSA also provides or coordinates psychiatric services, medication management, everyday crisis services, and comprehensive community support services (CCSS) that support an individual's self-identified recovery goals, and other clinical services.

State of NM Secretary of Health and Secretary of HSD, as well as the State MCOs, reached out to HMS to provide these services. The proposal was taken to the HMS Board of Directors and approved. These services are being provided in Grant and Hidalgo Counties, the HMS service area. HMS entered into a contract and is now the Core Service Agency and the CCSS Providers to hundreds of patients. Approximately 25 new employees have been hired.

In 2013, Hidalgo Medical Services had been without a CEO for several months, until a new CEO was hired to start the latter part of December 2013. The previous CEO had stayed with HMS for 1 ½ years. The initial CEO had been with HMS for 16 years. The current CFO was hired in July of 2013. Both current CEO and current CFO were unfamiliar with the Case at hand.

When I, as CEO started employment, I discovered that HMS was experiencing a financial crisis. HMS was immediately put into a Recovery Mode. HMS decreased many employees hours, decreased benefits, monitored all expenses, relocated one clinic from a leased building to an owned building, etc..

HMS was informed that a HRSA site visit would occur in August of 2014. HMS immediately began preparations for the site visit. HMS was then informed that the OIG was coming to do a random audit on an Affordable Care Act Project funded four years prior to 2013.

When the OIG Auditors came on site, HMS staff provided as much documentation as possible. Staff went back several years to find Board minutes, paper trails for all the work that was done, talked to staff and others who were involved, either directly or indirectly to share as much information with the Auditors as possible. The major problem encountered was that most of the staff directly involved were gone other than the project manager and the accountant.

As the report states, there were many things that HMS was not able to validate due to lack of information and supporting documentation. Yes, at the time, I stated that HMS was not in a financial position to hire a physician and support personnel to open a comprehensive primary care clinic. HMS was in a Recovery mode and implementing new policies and procedures throughout to stabilize and become a financially healthy Organization.

Shortly after I arrived, a geriatric clinic was scheduled once a week at the facility in question. The facility is connected to the Senior Citizen Center and that seemed like an excellent plan. The idea was to monitor the utilization and expand as needed. Unfortunately, not very many seniors came to the clinic and the services were discontinued. Also, during this time, a chiropractor, who is an HMS employee, was also providing services one day a week in the facility in question. As HMS is the only health care provider in this County, this service was in demand.

The HRSA site visit was in August of 2014. HMS was ready for the comprehensive site visit. There were three findings that were not major but needed more substance. HMS was complemented on the steps taken to make a recovery. HMS was allowed 60 days to respond to the findings. HMS did so, and there are no conditions on HMS funding. HMS is in frequent communication with the HMS HRSA Project Officer.

HMS had an independent audit shortly after the site visit. At the same time, the OIG auditors were here, as well. HMS had one finding in the independent audit and the finding was not due to any financial or management concerns. The finding has been corrected.

HMS is now in a healthy financial position with financial policies and procedures in place to assure that what happened with this Award never occurs again.

The present Administration has and continues to do everything possible to assure that all projects are managed according to Scope of Work and all procurement policies are followed.

HMS proposes to pay back the \$98,522.00 that was inadvertently paid by federal funds for the Senior Center equipment.

Recommendation 2: HRSA to work with HMS to strengthen its financial property management, and procurement controls over grant funds: HMS has worked diligently to strengthen all our policies and procedures, as documented, by the Operation Site Visit Consultants and the Independent Auditor, however, we are always receptive to more training, if HRSA thinks it is necessary.

## Response to OIG Recommendation 2

Recommendation that HRSA: work with HMS to strengthen its financial, property management, and procurement controls over grant funds.

Response: nonconcurrency.

Introduction - Hidalgo Medical Services has gone through a period of significant expansion since 2010 growing its capacity and service area in Grant and Hidalgo counties. Annual encounters increased by over 13,000 during this period. Along with the expansion, came the challenges of organization structural change. In the past two years, HMS has addressed the needs in the financial area by hiring qualified personnel, implementing internal controls, revising formal finance policies, and expanding capabilities of the current financial accounting software.

In August of 2014, HRSA performed an Operational Site Visit at the HMS locations. During this detailed investigation, areas of compliance were noted and HMS worked with HRSA representatives to identify areas where improvement could be accomplished. Information from the *Health Center Program Site Visit Report* for HMS will be referenced in the individual responses to the OIG findings.

**Financial Management** – “HMS’s financial management system neither adequately identified the source and application of funds for HHS-sponsored activities nor provided effective control over and accountability for all funds. In addition, HMS did not record all grant award payments in accounting records separate from the records of other funds.”

HMS has revised its accounting structure to allow for individual grant and program recording in the general ledger. With the hiring of three degreed accountants, adequate internal controls and accounting responsibility can be distributed among experienced and knowledgeable staff.

The HRSA report (Program Requirement #12 – Financial Management and Control Policies) concluded “HMS maintains accounting and internal control systems appropriate to the size and complexity of the organization and reflect GAAP principles . . .” HRSA did recommend that all policies be documented thoroughly. This was accomplished and acknowledged by HRSA in the NGA dated 04/15/2015.

**Insufficient Equipment Records** – “HMS did not properly identify equipment purchased with grant funds at the community health center. . . . HMS did not include the funding sources for property in its inventory records . . . .”

HMS completed a physical inventory of all fixed assets in 2015. HMS has added a Fixed Asset Accounting module to its financial software program. This allows tracking of each asset by location, service line, program, and grant. A formal fixed asset policy was expanded as part of the HRSA recommendation to document financial policies. HRSA acknowledged the HMS fixed asset tracking process by noting in its report that “HMS appears to have separate functions in a manner and appropriate to the organization’s size in order to safeguard assets and maintain financial stability.”

**Competitive Bidding** – “HMS was unable to provide justification for a lack of competition when it selected its dental equipment vendor for the community health center.”

During the process of revising its financial policies, HMS also reaffirmed its policy complying with federal guidelines for the necessity of competitive bids and/or documentation. In the HMS bid policy it is stated that “Only individuals authorized by annual corporate resolution may bind HMS to contracts for services or any other contractual agreement.” In the case of a lack of competition HMS policy states “The CFO, with approval of the CEO, and the HMS Board, may determine that a given procurement should be exempt from this competitive bid policy based upon the unique products or services that can be provided by only one vendor. Documentation justifying this sole source exception must be signed by the CFO and filed with the contract or purchase order.”

**Conclusion** – While there may have been a lack of formal and appropriate policies and procedures in place while HMS underwent its growth, these items have been addressed by HMS in conjunction with HRSA. Additional, qualified staff has been hired, policies have been formalized, internal controls have been strengthened, and procedures have been established. With the implementation of these projects and having the input and final approval of HRSA, this recommendation has effectively already been accomplished.

**APPENDIX D: HEALTH RESOURCES AND SERVICES  
ADMINISTRATION COMMENTS**



DEPARTMENT OF HEALTH & HUMAN SERVICES

Health Resources and Services  
Administration

Rockville, MD 20857

**TO:** Daniel R. Levinson  
Inspector General

**FROM:** Acting Administrator  
NOV 23 2015

**DATE:** \_\_\_\_\_

**SUBJECT:** OIG Draft Report: "Hidalgo Medical Services Did Not Comply With All Federal Requirements Related to Its Capital Development Grant" (A-06-14-00056)

Attached is the Health Resources and Services Administration's (HRSA) response to the Office of Inspector General's draft report, "Hidalgo Medical Services Did Not Comply with All Federal Requirements Related to Its Capital Development Grant" (A-06-14-00056). If you have any questions, please contact Sandy Seaton in HRSA's Office of Federal Assistance Management, at (301) 443-2432.

  
for James Macrae

Attachment

**Health Resources and Services Administration’s Comments on the OIG Draft Report –  
“Hidalgo Medical Services Did Not Comply With All Federal Requirements Related to Its  
Capital Development Grant” (A-06-14-00056)**

The Health Resources and Services Administration (HRSA) appreciates the opportunity to respond to the above draft report. HRSA’s responses to the Office of Inspector General (OIG) recommendations are as follows:

**OIG Recommendation:**

We recommend that HRSA either (1) require HMS to refund \$897,965 to the Federal Government for the unallowable grant expenses for the wellness center or (2) provide HMS with disposition instructions for the wellness center and, upon disposition, require HMS to refund to the Federal Government either the current wellness center’s fair market value or the \$897,965 Federal share of the wellness center’s cost, whichever is lower.

**HRSA Response:**

HRSA concurs with OIG’s recommendation. HRSA will work with Hidalgo Medical Services (HMS) to evaluate the extent to which the facility is being utilized to provide health care services that are within the approved scope of the grant. If necessary, HRSA will either (1) require HMS to refund \$897,965 to federal government for the unallowable grant expenses for the wellness center or (2) provide HMS with disposition instructions for the wellness center and, upon disposition, require HMS to refund to the federal government either the current wellness center’s fair market value or the \$897,965 federal share of the wellness center’s costs, whichever is lower.

**OIG Recommendation:**

We recommend that HRSA work with HMS to strengthen its financial, property management, and procurement controls over grant funds.

**HRSA Response:**

HRSA concurs with OIG’s recommendation. HRSA will work with HMS to strengthen its financial, property management, and procurement controls over the grant funds.