

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**HPM FOUNDATION, INC., DID
NOT ALWAYS COMPLY WITH
FEDERAL REQUIREMENTS
RELATED TO ITS AFFORDABLE
CARE ACT-FUNDED COMMUNITY
HEALTH CENTER FUND GRANT**

*Inquiries about this report may be addressed to the Office of Public Affairs at
Public.Affairs@oig.hhs.gov.*



Gloria L. Jarmon
Deputy Inspector General
for Audit Services

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Office of Inspector General

<http://oig.hhs.gov>

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OFFICE OF AUDIT SERVICES FINDINGS AND OPINIONS

The designation of financial or management practices as questionable, a recommendation for the disallowance of costs incurred or claimed, and any other conclusions and recommendations in this report represent the findings and opinions of OAS. Authorized officials of the HHS operating divisions will make final determination on these matters.

EXECUTIVE SUMMARY

HPM Foundation, Inc., 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 the operation and expansion of the community health center program. An additional \$1.5 billion was authorized and appropriated for the construction and renovation of community health centers nationwide. HRSA awarded HPM Foundation, Inc. (HPM), a not-for-profit health center in Puerto Rico, \$11,493,001 of these funds to construct a new health center in San Juan, Puerto Rico.

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 risks often associated with expansion and construction projects.

The objective of this review was to determine whether HPM 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 Health Center 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, HRSA administers the program.

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

HPM, a not-for-profit Federally Qualified Health Center in Puerto Rico, was awarded \$11,493,001 in capital development grant funds under the ACA.

HOW WE CONDUCTED THIS REVIEW

We reviewed the \$11,493,001 capital development grant awarded by HRSA on October 6, 2010, to HPM under the ACA for the period October 1, 2010, through September 29, 2013. Specifically, we reviewed whether HPM (1) had adequate financial management controls over capital development grant funds, (2) followed procurement standards in accordance with Federal requirements for construction-related contracts, (3) claimed allowable costs, (4) met grant-

established project milestone dates, and (5) provided reliable data on the number of patients it served.

WHAT WE FOUND

HPM did not comply with all applicable Federal requirements and grant terms related to its ACA-funded capital development grant. Specifically, HPM claimed unallowable construction consulting costs totaling \$35,000. In addition, HPM did not (1) comply with procurement standards, (2) separately account for grant funds, (3) properly maintain and track equipment purchased with grant funds, and (4) provide HRSA reliable data on the number of patients served.

This occurred because HPM lacked an understanding of Federal grant policies that led to inadequate financial, property management, and procurement controls over grant funds. In addition, HPM did not have adequate procedures in place to ensure that it reported reliable data to HRSA.

WHAT WE RECOMMEND

We recommend that HRSA:

- require HPM to refund \$35,000 to the Federal Government for unallowable construction consulting costs;
- work with HPM to ensure that it strengthens its financial, property management, and procurement controls over grant funds; and
- ensure that HPM strengthens its procedures for reporting reliable data on the number of patients served.

HPM COMMENTS AND OUR RESPONSE

In written comments on our draft report, HPM generally agreed with four of our five findings and all of our recommendations. After reviewing HPM's comments, we maintain that our findings 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)¹ established a Community Health Center Fund administered by the Health Resources and Services Administration (HRSA) that provides \$9.5 billion in grant funds for the 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 HPM Foundation, Inc. (HPM), a not-for-profit health center in Puerto Rico, \$11,493,001 of these funds to construct a new health center in San Juan, Puerto Rico.

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 risks often associated with expansion and construction projects.

OBJECTIVE

Our objective was to determine whether HPM 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 (42 U.S.C. § 254b). The Health Center 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 a 5-year period (Federal fiscal years (FYs) 2011 through 2015) for the operation, expansion, and construction of community health centers nationwide.²

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

¹ 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.

² 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.

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.

HPM Foundation, Inc.

HPM, a not-for-profit Federally Qualified Health Center (FQHC)³ that provides medical, dental, and mental health services in San Juan and Culebra, Puerto Rico, was awarded \$11,493,001 to construct a new health center in San Juan to replace its old facility. In its grant application, HPM projected that the new center would provide services to 27,000 patients. The construction project was completed in May 2013. The new center began providing services in June 2013.

By accepting these ACA-funded capital development grant funds, HPM 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 \$11,493,001 capital development grant awarded by HRSA on October 6, 2010, to HPM for the period October 1, 2010, through September 29, 2013. Specifically, we reviewed whether HPM (1) had adequate financial management controls over capital development grant funds, (2) followed procurement standards in accordance with Federal requirements for construction-related contracts, (3) claimed allowable costs, (4) met grant-established project milestone dates, and (5) provided reliable data on the number of patients served.

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

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

- HPM claimed unallowable construction consulting costs totaling \$35,000.

³ 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.

- HPM did not always comply with procurement standards. Specifically, for five of the nine contracts we reviewed, HPM did not justify its decision not to use a competitive bidding process and did not include required contract provisions in its purchases of services and equipment.
- HPM did not separately account for grant funds.
- HPM did not retain sufficient records for maintaining and tracking equipment acquired with Federal funds.
- HPM did not provide reliable data on the number of patients served.

This occurred because HPM lacked an understanding of Federal grant policies that led to inadequate financial, property management, and procurement controls over grant funds. In addition, HPM did not have adequate procedures in place to ensure that it reported reliable data to HRSA.

UNALLOWABLE CONSTRUCTION CONSULTING COSTS

Federal cost principles state that for a cost to be allowable under an award, it must be reasonable for the performance of the award and allocable to it (2 CFR part 230, Appendix A, § A.2.a).

HPM claimed \$35,000 in unallowable construction consulting costs. Specifically, HPM claimed construction consulting services costs related to the construction of a facility not funded under HPM’s capital development grant. HPM officials stated that this occurred because HPM did not determine whether two invoices submitted by the consultant⁴ were related to activities funded under HPM’s capital development grant.

PROCUREMENT STANDARDS NOT MET

Federal procurement standards require 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). Additionally, grantees are required to document in their procurement files a cost or price analysis in connection with every procurement action (45 C.F.R. § 74.45). Moreover, for purchases in excess of the simplified acquisition threshold (\$100,000 during our audit period),⁵ a grantee’s procurement records and files must also include, at a minimum, “(a) basis for contractor selection, (b) justification for lack of competition when competitive bids or offers are not obtained, and (c) basis for award cost or price” (45 C.F.R. § 74.46). HPM’s internal policies require that the purchase of goods and services over \$500 be performed through a competitive bidding process.

⁴ The consultant worked on projects funded under HPM’s capital development grant as well as other projects.

⁵ The simplified acquisition threshold is fixed at 41 U.S.C. § 134.

We reviewed nine contracts in excess of \$25,000, including seven contracts in excess of \$100,000.⁶ For five of the nine contracts that we reviewed, HPM did not meet procurement standards. Specifically, HPM did not (1) document a cost or price analysis for five contracts; (2) follow a competitive bidding process for two contracts; and (3) document the basis for selecting a contractor, its justification for lack of competition, and the basis for award cost or price for three contracts in excess of the simplified acquisition threshold.

HPM officials stated that this occurred because they lacked an understanding of construction project procurement standards and wanted to meet the project deadlines.

REQUIRED CONTRACT PROVISIONS NOT INCLUDED

Grantee contracts in excess of \$100,000 must include provisions that allow for remedies in instances in which a contractor violates or breaches the contract terms (45 CFR § 74.48(a)). These contracts must include provisions that allow for the awarding agency (or an authorized representative) to access any books, documents, papers, and records of the contractor that are directly pertinent to a specific program for the purpose of making audits, examinations, excerpts, and transcriptions (45 CFR § 74.48(d)).

For each of seven contracts in excess of \$100,000 that we reviewed, HPM did not include all required contract provisions. For example, one construction contract included a provision to provide access to the accounting records to the project owner for the purpose of an audit or examination; however, it did not include provisions for the awarding agency or other Federal authorities to access the contractor's records. HPM also obtained construction consulting services and purchased equipment without contracts that included provisions that allowed for remedies in instances in which the contractor violated or breached the contract terms.

HPM officials stated that this occurred because they lacked experience with construction projects and were not aware of the Federal requirements regarding contracts provisions.

INADEQUATE ACCOUNTING FOR GRANT FUNDS

Grant 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)).⁷ 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)).

⁶ We chose to review transactions in excess of \$25,000 because they required approval from HPM's board of directors. The nine contracts were for construction consulting services and dental, medical, communication, and information technology equipment.

⁷ These records must contain information pertaining to Federal awards, authorizations, obligations, unobligated balances, assets, outlays, income and interest.

HPM did not adequately account for capital development funds within its accounting system. Specifically, HPM commingled grant funds into a single bank account with funds from other Federal and non-Federal sources without separately accounting for these funds. As a result, capital development funds could have been used to cover non-grant-related expenditures. For example, we were able to determine that, for about a 1-month period, HPM used capital development funds in the commingled account to pay a \$232,000 deficit in operating expenditures. We were able to determine this because non-grant-related expenditures exceeded non-grant-related income by this amount. This occurred because HPM officials lacked an understanding of the requirements for the accounting of Federal funds.

INSUFFICIENT EQUIPMENT RECORDS

Federal property management standards require grantees to maintain accurate records for equipment acquired with Federal funds and for federally owned equipment (45 CFR § 74.34(f)(1)).⁸ Further, equipment owned by the Federal Government must have a tag indicating that it is federally owned (45 CFR § 74.34(f)(2)).

HPM did not properly identify equipment purchased with grant funds totaling \$598,621. Specifically, it did not maintain a list of equipment purchased with Federal funds and tag these items to identify them as federally owned.⁹

HPM officials stated that the person in charge of HPM's inventory management process resigned during the construction project and, therefore, HPM found it difficult to identify the equipment purchased with grant funds.

DATA ON PATIENTS SERVED WERE UNRELIABLE

The Secretary may not approve an application for a grant unless the center has developed an effective procedure for compiling and reporting to the Secretary such statistics and other information as the Secretary may require (42 USC § 254b(k)). The HRSA Bureau of Primary Health Care Uniform Data System Manual (2013) established that the Uniform Data System (UDS) is a reporting requirement for grantees of Community Health Center grants under section 330 of the Public Health Service Act. Health centers report on their performance using measures defined in the UDS. HRSA reviews the data to ensure compliance with legislative and regulatory requirements, improve health center performance and operations, and report overall program accomplishments.

HPM did not provide reliable data on patients served in its reports to UDS for calendar years (CYs) 2012 and 2013. Specifically, HPM reported serving 13,967 and 14,078 patients in CYs 2012 and 2013, respectively. However, HPM's supporting documentation included a

⁸ Equipment records shall include a description of the equipment, identification number, source of the equipment (including award number), whether title vests in recipient or Federal Government, acquisition date, location and condition, and unit acquisition costs, among others.

⁹ The equipment purchased with Federal funds included dental, medical, and information technology, communication equipment, and furniture.

worksheet indicating that HPM served 8,166 patients in 2012 and 11,287 patients in 2013. HPM officials could not explain or provide documentary evidence that explained the difference in the number of patients reported to HRSA through the UDS and the number of patients evidenced in the supporting documentation. The officials indicated that the difference in numbers may have been caused by a 2013 change in HPM's electronic health records software.

RECOMMENDATIONS

We recommend that HRSA:

- require HPM to refund \$35,000 to the Federal Government for unallowable construction consulting costs;
- work with HPM to ensure that it strengthens its financial, property management, and procurement controls over grant funds; and
- ensure that HPM strengthens its procedures for reporting reliable data on the number of patients served.

HPM FOUNDATION, INC., COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE

In written comments on our draft report, HPM generally agreed with four of our five findings and all of our recommendations. After reviewing HPM's comments, we maintain that all of our findings are valid. HPM's comments are included in their entirety as Appendix C.

PROCUREMENT STANDARDS NOT MET

HPM Comments

HPM disagreed with our finding that it did not always comply with procurement standards. HPM described its difficulties with an architect that put the project a year behind schedule. HPM ultimately terminated its contract with the architect and contracted with a "sole source vendor" to act as a design and construction consultant. HPM stated that the contract included oversight of medical equipment selection, procurement, and installation. To accomplish this, a request for proposal was prepared and sent to qualified vendors who could act as a consultant for the purchase of medical equipment. According to HPM, to keep the project on schedule, HPM and the consultant decided on one firm to design, store, deliver, install, and provide maintenance for all dental and other clinic equipment. HPM stated that, for these reasons, it met procurement standards.

Office of Inspector General Response

After reviewing HPM's comments, we maintain that HPM failed to follow most procurement standards in 45 C.F.R. §§ 74.40-74.48 and its own procurement policies and procedures. HPM contracted with the construction consultant and obtained dental and clinic equipment without

soliciting bids or proposals. Additionally, HPM did not provide a cost or price analysis in connection with these procurement actions, as required. Further, HPM did not provide documentation that included, at a minimum, (a) the basis for selecting the contractor, (b) justification for not obtaining competitive bids, and (c) the basis for the awarded cost for some contracts that were in excess of the simplified acquisition threshold.

Finally, HPM's own procurement policies and procedures established that all transactions for the purchase of goods and services greater than \$500 shall be allocated so as to allow the greatest possible opportunity for open and free competition. These policies and procedures also required HPM to document in detail the reason for no open competition and, in cases where Federal grants are used, to notify the grantor.

INSUFFICIENT EQUIPMENT RECORDS

HPM Comments

HPM partially agreed with our finding that it did not properly identify equipment purchased with grant funds because it did not maintain a list of the equipment purchased with Federal funds and tag these items to identify them as federally owned. HPM indicated that it has a list of all equipment purchased with Federal funds and has begun working to update its equipment records. HPM further stated that, since the completion of our fieldwork, it has tagged all equipment.

Office of Inspector General Response

At the time of our fieldwork, HPM provided an incomplete list of equipment records that did not include all information required by 45 CFR § 74.34(f)(1), such as identification number, whether title vests with the Federal Government, acquisition date, and ultimate disposition data. However, we are pleased that HPM stated that all equipment has since been properly tagged.

DATA ON PATIENTS SERVED WERE UNRELIABLE

HPM Comments

HPM partially agreed with our finding that it did not provide reliable data on patients served in its UDS reports for CYs 2012 and 2013. HPM stated that the total number of patients reported in its reports was correct; however, the supporting documents provided to us did not match because the data used to prepare the reports were corrupted and incomplete.

Office of Inspector General Response

At the time of our review, HPM officials stated that they could not explain why its data did not match the totals reported in the UDS. Instead, they speculated that the difference might have been caused by a change in HPM's electronic health record software in 2013.

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.

APPENDIX A: FEDERAL REQUIREMENTS FOR COMMUNITY HEALTH CENTER GRANTEES

As established by 42 U.S.C. § 254b(k), the Secretary may not approve an application for a grant unless the center has developed an effective procedure for compiling and reporting to the Secretary such statistics and other information as the Secretary may require.

Regulations at 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 OMB 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)(6)) require grantees to have written procedures for determining the reasonableness, allocability, and allowability of costs in accordance with applicable Federal cost principles and the terms and conditions of the award.

Regulations (45 CFR § 74.21(b)(1)) require grantees to maintain financial management systems that provide accurate, current, and complete disclosure of the financial results of each HHS-sponsored project or program. The systems should also provide effective control over and accountability for all funds, property, and other assets. Grantees must adequately safeguard all such assets and assure that they are used solely for authorized purposes (45 CFR § 74.21(b)(3)). The systems must also provide accounting records that are supported by source documentation (45 CFR § 74.21(b)(7)). Grantees must maintain records that adequately identify the source and uses of funds for sponsored activities (45 CFR § 74.21(b)(2)).

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 and cost; information from which one can calculate the percentage of HHS's share in the cost of the equipment; 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. Also, the equipment owned by the Federal Government must be identified to indicate that it is federally owned (45 CFR § 74.34(f)(2)).

Regulations (45 CFR § 74.43) state that all procurement transactions shall be conducted in a manner to provide, to the maximum extent practical, open and free competition. Additionally, some form of cost or price analysis shall be made and documented in the procurement files in connection with every procurement action (45 CFR § 74.45). Furthermore, procurement records and files for purchases in excess of the simplified acquisition threshold shall include the following, at a minimum: (a) basis for contractor selection, (b) justification for lack of

competition when competitive bids or offers are not obtained, and (c) basis for award cost or price (45 CFR § 74.46).

Regulations (45 CFR § 74.48(a)) state that for contracts in excess of the simplified acquisition threshold (\$100,000), grantees must include provisions that allow for remedies in instances in which a contractor violates or breaches the contract terms. In addition, all such contracts must include a provision to the effect that the HHS awarding agency, the U.S. Comptroller General, or any of their duly authorized representatives must have access to any books, documents, papers, and records of the contractor that are directly pertinent to a specific program for the purpose of making audits, examinations, excerpts, and transcriptions (45 CFR § 74.48(d)).

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 shall 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.

The HRSA Bureau of Primary Health Care Uniform Data System Manual (2013) establishes the UDS as a reporting requirement for grantees under section 330 of the Public Health Services Act. The UDS is a core set of information appropriate for reviewing the operation and performance of health centers. The data are reviewed to ensure compliance with legislative and regulatory requirements, improve health center performance and operations, and report overall program accomplishments.

APPENDIX B: AUDIT SCOPE AND METHODOLOGY

SCOPE

We reviewed the capital development grant costs totaling \$11,493,001, the full amount awarded to HPM for the period October 1, 2010, through September 29, 2013.¹⁰ Specifically, we reviewed whether HPM (1) had adequate financial management controls over capital development grant funds, (2) followed procurement standards in accordance with Federal requirements for construction-related contracts, (3) claimed allowable costs, (4) met grant-established project milestone dates, and (5) provided reliable data on the number of patients it served.

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

We performed fieldwork at HPM's office in San Juan, Puerto Rico, from August 2014 through February 2015.

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 HPM officials to gain an understanding of HPM's accounting system, policies and procedures for managing Federal grant funds, and health center grant activities;
- obtained and reviewed HPM's ACA capital development grant application package, approved design documents and timeline for project completion, Notice of Grant Award documents, and applicable amendments;
- reviewed HPM's financial management controls, procurement policies and procedures, and construction contracts;
- reviewed costs totaling \$11,493,001 claimed on grant expenditure reports to determine whether costs were allowable for reimbursement, including construction and consultant costs and equipment purchases and whether procurement procedures were followed in nine contracts over \$25,000;
- compared budgeted amounts to actual grant expenditures and analyzed discrepancies;

¹⁰ 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 # C8ACS21304-01-05).

- identified any costs transferred to or from the grant;
- determined whether HPM met established milestone dates for project completion;
- determined whether HPM met its projected increases in patient capacity and delivery of health services;
- determined whether health services were provided as outlined by grant terms; and
- discussed the results of our review with HPM 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: HPM FOUNDATION, INC., COMMENTS



Apartado 14457 Bo. Obrero Station Santurce, PR 00916
Avenida Borinquen 2020, Barrio Obrero, Santurce PR 00915
Tel: 787-268-4171 Fax: 787-727-3695

October 28, 2015

Report Number: A-02-14-02022

Mr. James P. Edert
Regional Inspector General for Audit Services
Office of Audit Services, Region II
Jacob K. Javits Federal Building
26 Federal Plaza, Room 3900
New York, New York 10278

Re: HPM Foundation, Inc. Audit of its Affordable Care Funded Community Health Center Fund Grant

Dear Mr. Edert:

Reference is made to the above referenced report issued by your office on September 28, 2015. This letter constitutes HPM Foundation, Inc.'s ("HPM") response to the report. The report included five findings. (See: p. 2 of the draft report.) We will address each finding separately and in the same order shown in your letter.

1. Finding #1: "*HPM claimed unallowable construction consulting costs totaling \$35,000.*"
 - a. Response: HPM agrees with this finding. HPM is ready to return the full amount upon receiving disbursement instructions from your office.
 - b. HPM notes, however, that total unallowable costs represent only 0.3% of the \$11,493,001 capital development grant awarded by HRSA. We feel this was an isolated incident and HPM utilized the grant properly and lawfully.
2. Finding #2: "*HPM did not always comply with procurement standards.*"
 - a. Response: HPM respectfully disagrees with this finding.
 - b. This finding must be viewed from a proper perspective. To that end, some history is required: In 2007 HealthproMed (previously known as Junta Del Centro De

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Salud Comunal Dr. Jose S. Belaval) was evicted from its previous facilities owned by the Municipality of San Juan.

- c. At that point we were forced to immediately rent, refurbish and equip several houses / small buildings nearby to continue providing services. HPM was in dire straits. We were providing services in cramped spaces. We were losing patients, personnel and faced declining revenues. HPM's position had become unsustainable.
- d. During those chaotic days we started planning to design and build a new facility. In 2008 we attended a conference sponsored by the National Association of Community Health Centers. At the conference we met representatives from Neenan Company and began conversations directed toward receiving a proposal from them to design and build our new facility. We received their proposal in late 2008.
- e. We also received two other proposals. Neenan's completed facilities clearly demonstrated unmatched skills and resources for programming, planning and design solutions that would transform our processes and bring about superior performance, efficiency at a lower cost.
- f. With Neenan's assistance, HPM then decided on an initial scope of project and asked several firms, including Neenan, to submit bids for the construction of our new facilities.
- g. Our management team then recommended to the Board of Directors to accept Neenan's proposal based on their distinct expertise in building primary care health facilities, prior track record, experience and added value that they would bring to the design. Furthermore, Neenan had prior experience in Puerto Rico and could navigate the bureaucratic maze that lay before us.
- h. Despite management's recommendation, the Board of Directors accepted a proposal submitted by architect Jaime Santana.
- i. The architect's performance was sub-par at best. Mr. Santana lacked experience in health care facilities and was unable to design a health facility in compliance with all applicable laws and regulations. He could not design and manage a project of this complexity as evidenced by the following: budgets over-runs,

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- failure to deliver compliance with due dates, improperly designed facilities for expanded services and points of care, failure to satisfy regulatory concerns, etc.
- j. A year into the project it became obvious that HPM would not be able to design and build our new facilities within our time table under the current scenario.
 - k. The Board of Directors then decided to terminate the contract with architect Santana and asked management to re-engage Neenan to complete the project. In 2010, Neenan visited HPM and delivered a new proposal to the Board of Directors.
 - l. By this time, we were a year behind schedule. Due to time constraints and the need to assure the completion of the project, the Board asked Neenan to take over the project (design and build). Neenan declined to act as a contractor, but agreed to act as a design and construction consultants under a “Design Built delivery Process “with a Local construction company.
 - m. Given our need to move into new facilities, our prior experience with architect Santana and real time constraints, as well as Neenan’s proven track record in the design and construction of primary care health facilities, we viewed Neenan as a sole-source vendor for this project. We simply had no time to lose and Neenan’s proposal to act as consultants of the project, in our view, within the reasonable standards of this type agreement. The Board decided to award the contract to Neenan Company in August 10, 2010.
 - n. Included in the contracted services with The Neenan Company was the oversight of medical equipment selection, procurement and installation. HPM and Neenan to bring a consultant to help us select the most appropriate medical equipment for our needs. Neenan prepared a request for proposal (“RFP”) and sent it to various firms qualified to provide medical equipment services. After evaluating all bids received, HPM selected HELP. HELP was chosen based on their prior experience in Puerto Rico and overall value of their services. Although there was one bidder with a lower cost proposal, it had no experience in Puerto Rico and their proposal included higher reimbursable costs.

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- o. It took more time than anticipated to get the initial design work completed and approved for the Dental module (including Casework, Dental Chairs Work Stations, X-Ray units and Air and Vacuum Pumps, etc.)
 - p. At that point HPM had a choice to make. To keep the Project on schedule we needed to expedite this part of the project. HPM and HELP decided to leverage the economics of scale of Henry Schein in our favor. We asked them to design and procure the dental equipment as well as much of the other clinic equipment (Exam Tables, Scales, and Diagnostic Wall Sets to name a few). They would lay out for us various designs and we would choose which equipment to buy based on price and functionality.
 - q. Henry Schein provided us with a one stop shop including logistics, storage, inside placement and installation services. Their ability to design, store, deliver, install and provide maintenance services after the equipment was installed were also deciding factors in our decision. Plus, they already had well established service capabilities on island.
 - r. For the reasons stated above, HPM respectfully submits that it did comply with procurement standards and always used a competitive bidding process.
3. Finding #2(a): *“Required Contract Provisions Not Included.”*
- a. Response: HPM agrees with this finding. HPM agrees that the contract provisions required pursuant to 45 CFR §§74.48(a) and (d) were not included in several contracts with sub-contractors.
 - b. HPM has already taken the necessary steps to ensure that all required contract provisions are included in the future. HPM’s compliance officer has been instructed to update HPM’s compliance manual with these regulations. The compliance officer will ensure that all future contracts (as applicable) comply with these regulations. HPM has also determined to seek outside resources to provide additional training to the compliance officer in federal contractual requirements.
4. Finding #3: *“Inadequate Accounting for Grant Funds.”*
- a. Response: HPM agrees that grant award funds were commingled with other funds in a single bank account. HPM also agrees that grant award funds should have

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- been deposited in a separate bank account. However, HPM was able to provide effective control over and accountability for all funds received. We note that the audit only reflected one unallowable payment (see: Finding #1.)
- b. HPM has already opened new bank accounts to be used solely for funds coming from Federal sources. This finding has been corrected and there will be no commingling of federal funds with non-federal funds in the future.
5. Finding #4: “*Insufficient Equipment Records.*”
- a. Response: HPM agrees in part with this finding.
 - b. HPM does have a list of all equipment purchased with federal funds. HPM can also identify each invoice with the corresponding equipment with one exception: office furniture. We note that office furniture is a minute component of the total value of the equipment purchased with federal funds. Nevertheless, HPM is currently working with its vendors to match each invoice to the corresponding physical item.
 - c. During the audit OIG auditors informed us that the equipment purchased with federal funds was not properly tagged. Since then we have been working to update our equipment records and as of this date, all equipment has been tagged.
6. Finding #5: “*Data on Patients Served Were Unreliable.*”
- a. Response: HPM agrees in part with this finding.
 - b. The total number of patients HPM reported in its 2012 and 2013 UDS reports is correct. However, the reason why the supporting documents provided to the auditors did not match the numbers reported in the UDS is because those reports were generated from a corrupted database.
 - c. At that time the application used to compile and reporting patient data was not hosted locally. It was hosted by our software provider in data centers located in the continental United States.
 - d. HPM decided to cancel their contract in June 2013 due to software problems and lack of IT support. This vendor opted to retain our databases until our contractual dispute is resolved.
 - e. The supporting documentation provided to the auditors was mistakenly retrieved by HPM’s personnel from a corrupted and incomplete database.

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- f. Since August 2013 HPM has been using eClinicalWorks as its EHR software solution. The software is hosted locally in our servers and our databases are complete and reliable.
- g. All supporting documentation now reconciles perfectly with our UDS reports.

Your report included three recommendations to HRSA. Notwithstanding the above, HPM agrees with all three recommendations:

1. We agree that the \$35,000 must be refunded to the Federal Government;
2. We are more than willing to work with HRSA to improve our financial, property management and procurement controls over grant funds; and,
3. We also welcome any assistance / directives from HRSA to strengthen our procedures for reporting patient data.

We thank you for the opportunity to respond to the report. Your audit provided HPM with the opportunity to identify areas of improvement. The work performed by your office will help us provide even better health services to our patients.

If you have any questions, please do not hesitate to contact us.

Cordially,

Manuel Santini
Chief Operating Officer
HPM Foundation, Inc.

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APPENDIX D: HEALTH RESOURCES AND SERVICES ADMINISTRATION COMMENTS



DEPARTMENT OF HEALTH & HUMAN SERVICES

Health Resources and Services
Administration

Rockville, MD 20857

JAN 5 2016

TO: Inspector General
FROM: Acting Administrator
SUBJECT: OIG Draft Report: "HPM Foundation, Inc., Did Not Always Comply With Federal Requirements Related to Its Affordable Care Act-Funded Community Health Center Fund Grant" (A-02-14-02022)

Attached is the Health Resources and Services Administration's (HRSA) response to the OIG's draft report, "HPM Foundation, Inc., Did Not Always Comply With Federal Requirements Related to Its Affordable Care Act-Funded Community Health Center Fund Grant" (A-02-14-02022). If you have any questions, please contact Sandy Seaton in HRSA's Office of Federal Assistance Management at (301) 443-2432.


James Macrae

Attachment

**Health Resources and Services Administration’s Comments on the OIG Draft Report –
“HPM Foundation, Inc., Did Not Always Comply With Federal Requirements Related to
Its Affordable Care Act-Funded Community Health Center Fund Grant” (A-02-14-02022)**

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 require HPM to refund \$35,000 to the Federal Government for unallowable construction consulting costs.

HRSA Response:

HRSA concurs with OIG’s recommendation. HRSA will work with HPM Foundation, Inc. (HPM) to determine if any grant funds need to be refunded to the federal government.

OIG Recommendation:

We recommend that HRSA work with HPM to ensure that it strengthens its financial, property management, and procurement controls over grant funds.

HRSA Response:

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

OIG Recommendation:

We recommend that HRSA ensure that HPM strengthens its procedures for reporting reliable data on the number of patients served.

HRSA Response:

HRSA concurs with OIG’s recommendation. HRSA will work with HPM to ensure they strengthen their procedures for reporting reliable data on the number of patients served.