



December 13, 2013

To: Federal Co-Chair
ARC Executive Director
ARC General Counsel
ARC Program Director

From: Hubert Sparks, Inspector General

Subject: Memorandum Report 14-4, Grant No. PA-16279, Windber Medical Center

Based on review of grant files and contacts with grantee, applicable LDD, USDA Rural Development (RD), Pennsylvania ARC and ARC representatives we concluded that ARC, in coordination with the other involved entities needs to determine the continued viability and sustainability of the grant for Medical Center improvements. Although RD submitted a final project closeout report dated 8/6/12, indicating a total project cost of \$505,906, our follow-up disclosed about \$29,000 of the \$250,000 in ARC funds provided to the grantee has been expended.

Windber Medical Center was originally approved \$250,000 on August 24, 2009 for a project to renovate and expand the hospital's Emergency Department. Project costs were estimated as \$5,350,000 with local funds identified as the primary fund source. The scope of the project was changed from expansion of the emergency department to renovation and expansion of the OB/GYN department on 9/14/10, and total cost reduced to \$500,000 evenly divided between ARC and the grantee. The OB/GYN unit has since been closed.

ARC files and contacts noted significant unresolved issues. Efforts by the applicable LDD, RD, State officials and ARC to obtain information to identify the grant status and intended use of ARC funds have not resolved open issues. Also, available documents are inconsistent and questionable with respect to the grant status, including the status of ARC funds.

ARC.net reflects the Basic Agency obligation date as 8/31/09 and Basic Agency funding information notes the \$250,000 advanced as of 12/31/11. The ARC.net BA funding tab includes comments that as of 11/15/11, the project is nearing completion, funds should be drawn within 30 days, zero balance as of 12/31/11 and project closeout report needed. It is further noted that the project closeout (dated 8/6/12) was received as of 1/31/13 and ARC is working with Pennsylvania to resolve project issues. The project remains open.

Of particular significance and concern is the RD Construction Close out Report signed 8/6/12 noting final project costs as \$505,906, including the \$250,000 ARC grant. The file includes an

11/30/11 grantee request for an advance and states the hospital has not received any reimbursement of the \$250,000 ARC grant, although the project is complete. The initial BAMR report received in 2012 noted the project as completed and despite various issues with respect to this project, the BAMR report received 11/19/13 still notes the project as completed.

However, our contact with the grantee received a response that \$250,000 in grant funds remains in the grantee account. Basically, except for four bassinets, the projected equipment costs of \$221,234 for the OB/GYN have not been expended. The grantee noted that demolition with respect to Emergency Department renovation and expansion had started with additional work pending finalizing financing and that the ARC funds would be used on this project.

As noted, the RD closeout report refers to final costs of the OB/GYN expansion as \$505,906, including the \$250,000 in ARC funds. It appears this is incorrect in view of grantee comments that much of the grant funds are still available due to the commingling of ARC and matching funds we could not determine a breakout between the available funds. It appears that the construction portion of the OB/GYN was completed at a cost of \$288,669 which despite the subsequent closing of the OB/GYN, could be eligible spending of which 50% could be applied to \$250,000 ARC grant. Since the scope of the revised grant agreement was applicable to the OB/GYN (Maternal Child Unit) that has been closed there is currently no basis for available ARC funds to be used on expansion or renovation of the Emergency Department.

Grantee correspondence as of 6/11/13 states that the OB/GYN (Maternal Child Unit) was closed and equipment purchased for the nursery was limited to four bassinets costing about \$5,000. This correspondence also states that grant funds were used to assist in creating a new nursery within the Maternal Child Unit and a facilities plan that includes re-purposing the former Maternal Child Unit is being developed.

Available messages between the parties note unsuccessful efforts to determine project status or obtain the noted facilities plan. For example, a 9/20/13 message from the LDD to RD includes the following information.

"Have you been able to determine the total amount of ARC funds spent to date? The attached letter from "a Windber Official" dated June 11, 2013 states that only four bassinets were purchased. In addition, the letter outlines that a portion of the ARC funding was used to construct a new nursery. Has the Hospital provided the amount of ARC funds spent on this activity?

"It sounds as if the hospital is gathering quotes to account for the balance of ARC funding that has not been spent. Before going down that road I think it would be

prudent to determine the amount of ARC funds still on account with the Hospital. At that point ARC and RD will need to make a determination on several items:

1. How will the sale of the bassinets be handled? i.e. Is the Hospital going to be required to pay back a portion of that equipment cost?
2. Now that the OB Department has been closed, what will this space be used for moving forward? A "Windber Official" states in a letter that it is currently being used for storage and that a facilities plan is being developed that includes repurposing this area.
3. How will the unspent balance of ARC funds be handled?"

We concur with the questions raised.

Our contact with RD staff about the reporting of project status, including the closeout report received feedback that the reports were based on RD belief the project had been completed and ARC funds expended. RD provided a copy of a 10/13/13 letter from the grantee that included a revised equipment list totaling \$250,338 for the anticipated Emergency Department construction project. The letter also notes that once the project is completed the grantee believes it will have met their commitment under the terms of the grant and that an overall facility plan is being evaluated.

As previously noted, the revised grant scope identified ARC funds would be used to renovate the OB/GYN rather than the Emergency Department.

An 11/26/13 letter from the LDD to the grantee essentially recommended that the grantee not incur any additional expenditure of ARC funds pending review of the changed grant status.

We recognize that there have been considerable staff changes at the grantee and the RD administering offices that could have created some of the inaction and confusion including conflicting information about if, when, and how ARC funds have been utilized, including what expenditures have been incurred, ARC unexpended balances, and intended use of any balances.

In summary, grant history includes the initial application in 2009 for a \$250,000 ARC grant in connection with a \$5.3 million dollar project to renovate and expand the Emergency Department; a change of scope in 2010 to expansion and renovation of the OB/GYN costing \$500,000 apparently because funding and financing for the Emergency Department project was not available; closing of the OB/GYN with expenditure of about \$29,000 of the ARC funds; and revisiting intentions to go forward with the Emergency Department project including use of the remaining \$221,000 of ARC funds on this project; and open questions about the availability of needed additional financing for this project.

Thus we recommend:

ARC, in conjunction with RD, LDD and State should obtain a full accounting with respect to fund status and a comprehensive plan for intended use of fund balances and assess the viability and sustainability of this project, including applicability of the current grant agreement and/or need to recover unused balances. In accordance with the LDD letter ARC should also notify the grantee to avoid expenditure of additional ARC funds pending determinations and decisions to revise the grant scope or consider a new grant should include clear evidence of available funding or financing to complete the project.