

PERFORMANCE AUDIT
OF

**Center for Rural Health
Development, Inc.**

**Strengthening Healthcare
Enterprises in West Virginia**

Grant: WV-17158

OIG Report Number: 14-24

GRANT PERIOD: OCTOBER 2011 – SEPTEMBER 2014

WATKINS | MEEGAN

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Mr. Hubert N. Sparks
Inspector General

Transmitted herewith is a report of Watkins Meegan LLC, a Performance Audit of the Center for Rural Health Development, Inc. Strengthening Healthcare Enterprises in West Virginia Grant WV-17158. The report is in response to Contract No. BPA 11-01-B.



Tysons, Virginia
June 2, 2014

Center for Rural Health Development, Inc.

Strengthening Healthcare for Enterprises in West Virginia

WV-17158

Background

The Appalachian Regional Commission (ARC) is a regional economic development agency that represents a partnership of federal, state and local governments. Established by an act of Congress in 1965, ARC is composed of the governors of the 13 Appalachian states and a federal co-chair who is appointed by the President. Local participation is provided through multi-county local development districts (LDDs). Each year, ARC provides funding for several hundred projects in the Appalachian Region, in areas such as business development, education and job training, telecommunications, infrastructure, community development, housing and transportation. These projects help create new jobs; improve local water and sewer systems; increase school readiness; expand access to health care; assist local communities with strategic planning; and provide technical and managerial assistance to emerging businesses.

The Center for Rural Health Development, Inc. (CRHD, or Grantee) is located in Putnam County, West Virginia. Putnam County is classified as a competitive county. CRHD is a private, not-for-profit organization that provides leadership on rural health issues. The Grantee requested grant funding from ARC to support the development of healthcare businesses in West Virginia, to include additional capitalization of its WV Rural Health Infrastructure Loan Fund and support for the WV Institute for Health Care Governance (Institute) run by the Grantee. The goal of the Institute is to assist healthcare organizations improve governance and operations through one-on-one technical assistance consultations and through a series of Governance Forums. The Forums provide training opportunities for executives, board members, senior staff and volunteers of rural health organizations. Grant funds were requested to support costs for personnel, consultants, travel and supplies associated with these activities.

On September 29, 2011, ARC approved the CRHD Strengthening Healthcare Enterprises in West Virginia Grant, number WV-17158 (Grant), in the amount of \$526,000 for the period from October 1, 2011 to September 30, 2013. The Grant terms were amended on September 10, 2013 to extend the period of performance to September 30, 2014. Required matching funds from other sources totaled \$322,000, for a total funding amount of \$848,000. The sources of funding are shown in Table 1 below:

Table 1: Analysis of Project Funding Sources

Funding Source	Amount	Percentage
Appalachian Regional Commission (ARC)	\$526,000	62%
Local	\$322,000	38%
Total	\$848,000	100%

The Grant is subject to the General Provisions of the Grant Agreement between ARC and CRHD.

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Executive Summary

Grant funds were used to fund personnel and contractor expenses along with other administrative and program expenses for the Grantee and for consulting and advisory activities related to the WV Rural Health Infrastructure Loan Fund. Grant funds were not used to provide additional loan capital for the loan fund, which is covered by a separate ARC grant. The project is currently ongoing with \$141,099 in Grant funds remaining after reimbursements paid to the Grantee through the date of the audit. The performance period for the Grant runs through September 30, 2014.

Through review of reported expenditures, we noted findings related to the Grantee reporting of matching costs and project-related income. The Grantee reported income from non-ARC sources as matching costs and did not correctly report or account for income generated through Grant-funded activities. Additional information on the nature and impact of these findings is included in the Results section of this report. Other expenditures reviewed and tested during the audit appeared to be valid, adequately supported and in direct relation to supporting the Grant and its objectives. In addition, through inquiry and review of supporting documentation, we determined that the expected outputs stated in the ARC Grant approval memo have been achieved or are in process, with the Grantee anticipating successful completion prior to the end of the Grant period.

Objective

Watkins Meegan LLC was engaged to conduct a performance audit on the Strengthening Healthcare Enterprises in West Virginia Grant. As the period of performance of the Grant was not complete at the time of the audit fieldwork, the scope of our testing focused on the period from October 1, 2011 to January 31, 2014. The purpose of our performance audit was to determine the following:

- Funds expended and claimed for reimbursement from ARC and matching funds reported to ARC were valid program expenses and in accordance with the ARC Grant requirements;
- Internal controls were in place to ensure compliance with the Grant requirements; and
- Goals and objectives of the Grant have been or will be achieved during the Grant period.

Scope

We completed a performance audit of the Strengthening Healthcare Enterprises in West Virginia Grant WV-17158 at the Center for Rural Health Development office from March 24-26, 2014, as described under this section and under the Audit Methodology section. Our audit was based on the terms of the Grant agreement and on the application of procedures in the modified ARC Audit Program.

We conducted this performance audit in accordance with Generally Accepted Government Auditing Standards (GAGAS). 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.

Audit Methodology

Our procedures were based on the Audit Program provided by the ARC Office of the Inspector General and included suggested procedures over the Grantee's accounting and internal control systems affecting the Grant. We met with the CEO and CFO and conducted interviews to discuss the overall structure and processes around Grant administration and monitoring and other financial and operational elements related to the conduct of the Grant.

Our review of background material included the Grantee's application, other Grant-related documentation from ARC's Grant management system, and the Grantee's audited financial statements for fiscal years ended June 30, 2012 and 2013.

We reviewed controls in place for recording, accumulating and reporting costs under the Grant, examined a sample of supporting documentation to validate the processes and controls in place, and observed and made inquiries regarding whether the Grantee is making progress towards, or has achieved, the goals and objectives of the Grant.

Results

Compliance with Grant Provisions

ARC has reimbursed the Grantee \$384,901 of expenses for the period October 1, 2011 through January 31, 2014. Matching contributions of \$331,877 were reported by the Grantee. Through January 31, 2014, total reported expenditures for the Grant were \$716,778. At the completion of our review, \$141,099 of ARC grant funding remains available for the remaining period of the grant.

Grant funds were used to pay personnel and contractor expenses along with other administrative and program expenses for the Grantee and for consulting and advisory activities related to the WV Rural Health Infrastructure Loan Fund. Funding to provide additional capital for the loan fund was awarded under a separate ARC grant. We examined supporting documentation for a sample of the expenses incurred against the Grant and noted that all appeared to be valid, adequately supported and in direct relation to supporting the Grant and its objectives. However, as a result of our procedures, we noted the recording of matching funds and the reporting and treatment of program-related income generated through Grant-supported activities was incorrect. Our findings are described in more detail below.

Through inquiry and review, we sought to validate the outputs and outcomes expected from the Grant award as detailed in the ARC Grant approval memo. The anticipated output and outcome measurements included in the ARC Grant approval memo were to:

- i) Provide technical assistance to 240 organizations;
- ii) Lend monies to 14 healthcare enterprises;
- iii) Leverage \$3 million of additional financing; and
- iv) Create or retain 60 jobs.

Results (Continued)

Compliance with Grant Provisions (Continued)

We requested and obtained evidence from the Grantee for all of the aforementioned performance measurements and noted the last three measurements have already been achieved in full or surpassed and that the Grantee is making progress toward achieving the first measurement. The Grantee reported it had provided assistance to 170 organizations through the most recent interim progress report dated January 31, 2014. The Grantee expects to achieve the targeted number of 240 organizations by or before the end of the performance period of the Grant. ARC should confirm performance against this objective as part of the regular validation process for completed Grants.

At the conclusion of the audit, we noted and discussed the following findings, recommendations and observations as described below:

Finding – Inclusion of Income in Matching Funds Reporting

All Grant fund costs reported should reflect actual costs for Grant-related expenditures. For matching costs, the value of goods or services donated by a third party in support of Grant activities may also be recognized. We requested support for all ARC and matching costs charged to the Grant and were provided General Ledger reports as well as copies of individual invoices based on our testing sample selection. Through the process of reconciling this data, we noted that the Grantee had incorrectly recorded a total of \$169,641 of income as matching costs. This income was made up of third-party donations to the Grantee, fees received by the Grantee from third parties for training sessions, as well as income generated from forum and event registrations.

We further noted that within the \$169,641 of income, \$48,170 was directly related to activities supported by the Grant funding. This income was generated through registrations and other fees paid by third parties to participate in forum and conference events hosted by the Grantee and supported by Grant funds.

The Grantee agreement with ARC states, "Grant-related income means gross income earned by [the] Grantee from grant supported activities and shall include, but not be limited to, income from service fees, sale of commodities, or usage or rental fees. All grant-related Income shall be reported to ARC in the progress and final reports required by this agreement."

Furthermore, OMB Circular A-110 §215.24: "Program income" states in part:

(b) [...] program income earned during the project period shall be retained by the recipient and, in accordance with Federal awarding agency regulations or the terms and conditions of the award, shall be used in one or more of the ways listed in the following.

- (1) Added to funds committed to the project by the Federal awarding agency and recipient and used to further eligible project or program objectives.
- (2) Used to finance the non-Federal share of the project or program.
- (3) Deducted from the total project or program allowable cost in determining the net allowable costs on which the Federal share of costs is based.

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Finding – Inclusion of Income in Matching Funds Reporting (Continued)

[...]

(d) In the event that the Federal awarding agency does not specify in its regulations of the terms and conditions of the award how program income is to be used, paragraph (b)(3) of this section shall apply automatically.

The Grantee did not net the program income against the costs submitted to ARC for reimbursement as required by paragraph (b)(3) of OMB Circular A-110.

The combined impact of the incorrect reporting of the matching funds and program income is that ARC has reimbursed the Grantee \$75,541 more than it is eligible for through the interim reporting period ended January 31, 2014 (see Table 2 below for analysis). The ARC federal Grant funds are not being matched appropriately by funds from state, local or other non-federal sources as required under the Grant agreement. As a result, the ARC contribution has exceeded the 62 percent portion of total costs as stated in the Grant approval memo. The current ARC funding contribution through January 31, 2014, is 67 percent.

Table 2: Analysis of Matching/Program Income Reporting Errors

	ARC	Match	Total
Claimed through Jan 31, 2014	\$384,901	\$ 331,877	\$ 716,778
Disallowed			
- Income Items Reported as Match		(169,641)	(169,641)
Project-Related Income			
- Income to Be Netted Against Grant Expenses	(48,170)		(48,170)
Allowable Costs	336,731	162,236	\$ 498,967
Current Funding Ratio	67%	33%	
Total Allowable Costs	498,967		
ARC Contribution Per Agreement @ 62%	309,360		
ARC Reimbursements through 1/31/14	384,901		
ARC Overpayment through 1/31/14	<u>\$ (75,541)</u>		

Recommendation

The Grantee should work with ARC to determine the appropriate treatment for the errors in reporting the matching funds. The Grantee should correct its treatment and reporting of matching costs for any remaining reimbursement requests to account for the errors made in the requests through January 31, 2014, and to ensure that the ARC contribution does not exceed 62 percent of the total expenditures.

The Grantee should further ensure that it complies with the requirements and acceptable cost criteria for federal grants as detailed in OMB Circulars A-110 and A-122.

Management Response

Management acknowledges that their methodology for reporting matching funds was invalid and will work with ARC to determine the appropriate action to correct the issue. Management noted that the income previously reported as matching funds was/is used to cover expenses related to the operation of the Governance Institute run by the Grantee and that corresponding expenses may be eligible to be claimed as matching expenses for the purposes of the Grant. Management will research these expenditure items and discuss with ARC to determine eligibility as part of the process to address the issue noted above.

***Note:** Prior to the release of this report, Management prepared a revised schedule of expenditures eliminating the income items previously disclosed and including expenditures that it represented were eligible for inclusion as matching expenses. We did not have the opportunity to validate or verify the support for this revised schedule during the course of the audit. The revised schedule was provided by Management to ARC for review. ARC should review the support behind the revised schedule and validate the transactions as necessary as it determines the appropriate disposition of the finding.*

Finding – Failure to Report Grant-Related Income

The Grantee agreement with ARC states “Grant-related income means gross income earned by [the] Grantee from grant-supported activities and shall include, but not be limited to, income from service fees, sale of commodities, or usage or rental fees. All grant-related income shall be reported to ARC in the progress and final reports required by this agreement.”

We reviewed all progress reports submitted to ARC through the audit date and noted that the Grantee did not report any Grant-related income through the most recent report, covering the period ended January 31, 2014. As noted in the finding above, Grant-related income was \$48,170 through that period.

Recommendation

The Grantee should report Grant-related income to ARC in subsequent progress and final reports in accordance with the requirements of the Grant agreement.

Management Response

Management acknowledges that the progress reports submitted to ARC did not include any disclosure of income generated through Grant-funded activities. Management will correct this going forward and include all required information in future progress and final reports.

Additional Observations

1. We noted that personnel and fringe benefit costs reimbursed by ARC were \$70,620 and \$18,467, respectively, for the timeframe October 1, 2011 through September 30, 2013. These amounts were based on the budgeted amounts in the original Grant application. However, the Grant received a one-year extension until September 30, 2014. The Grantee did not request any adjustment or reallocation of the ARC budget to cover the additional 12 months of personnel and fringe benefit costs and also did not report the appropriate portion of personnel and fringe benefit costs as matching costs.
2. We noted that the method for determining the number of jobs created or retained through Grant-funded activities is to use metrics reported by entities applying for loan funding through the Grantee. Applicants report the number of current employees and/or the number of new jobs to be created; however, it is unclear how many of these reported jobs are directly or indirectly influenced by the loan funding provided.