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# AUDIT REPORT



## ALLIANCE COMMUNITY HOSPITAL SPECIAL PURPOSE GRANTS

ALLIANCE, OHIO

2001-CH-1006

MAY 3, 2001

OFFICE OF AUDIT, MIDWEST  
CHICAGO, ILLINOIS



Issue Date May 3, 2001
Audit Case Number 2001-CH-1006

TO: Preston A. Pace, Jr., Director of Columbus Multifamily Hub, Ohio State Office

/signed/

FROM: Dale L. Chouteau, District Inspector General for Audit, Midwest

SUBJECT: Alliance Community Hospital  
Special Purpose Grants  
Alliance, Ohio

We completed an audit of three Special Purpose Grants awarded to the Alliance Community Hospital. The three Grants were: OH12-SPG-32 for \$1,250,000; OH12-SPG-509 for \$1,500,000; and OH12-SPG-517 for \$500,000. The audit was conducted in response to a request from HUD's Director of the Cleveland Multifamily Program Center. The objectives of our audit were to determine whether: the Special Purpose Grants funds were used efficiently and effectively; and the Hospital complied with the terms of the Grant Agreements.

The Hospital generally administered two of the three Special Purpose Grants (OH12-SPG-32 and OH12-SPG-509) correctly. However, the Hospital did not use funds from Special Purpose Grant OH12-SPG-517 efficiently and effectively and failed to comply with the Grant Agreement. Specifically, the Hospital: improperly used \$6,065 in Grant funds to pay part of two employees' salaries and fringe benefits for time they spent working on non-Grant activities; used \$5,490 in Grant funds to pay an employee's salary and fringe benefits without supporting documentation; and used \$87,883 in Grant funds to pay the salary and fringe benefits expenses of the Hospital's Vice President of Strategic Management but the expenses were not permitted by the Grant Agreement.

We also found that the Hospital: received \$21,035 in program income from businesses participating in its Corporate Health Alliance activity funded by Special Purpose Grant OH12-SPG-517 but the income was not used to support the Grant; failed to use sound management principles when it did not charge itself for \$10,989 in Grant services provided to its employees; and used \$8,926 in Grant funds for: public relations items that did not specifically promote its Grant activities, and training and travel expenses for individuals that were not employed by the Hospital.

Within 60 days, please provide us, for each recommendation made in this report, a status report on: (1) the corrective action taken; (2) the proposed corrective action and the date to be completed; or (3) why action is considered unnecessary. Also, please furnish us copies of any correspondence or directives issued because of the audit.

Should you or your staff have any questions, please have them contact me at (312) 353-7832 or Heath Wolfe, Assistant District Inspector General for Audit, at (312) 353-6236 extension 2677.

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# Executive Summary

We completed an audit of three Special Purpose Grants awarded to the Alliance Community Hospital. The three Grants were: OH12-SPG-32 for \$1,250,000; OH12-SPG-509 for \$1,500,000; and OH12-SPG-517 for \$500,000. The objectives of our audit were to determine whether: the Special Purpose Grants funds were used efficiently and effectively; and the Hospital complied with the terms of the Grant Agreements. The audit was conducted in response to a request from HUD's Director of the Cleveland Multifamily Program Center.

The Hospital generally administered two of the three Special Purpose Grants (OH12-SPG-32 and OH12-SPG-509) correctly. However, the Hospital did not use funds from Special Purpose Grant OH12-SPG-517 efficiently and effectively and failed to comply with the Grant Agreement.

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## The Hospital Improperly Used Grant Funds To Pay Personnel Expenses

The Hospital did not follow Special Purpose Grant Agreement OH12-SPG-517, HUD's regulation, and/or Office and Management Budget Circular A-87 when it used Grant funds to pay employees' salaries and fringe benefits. Specifically, the Hospital improperly used \$6,065 in Grant funds to pay part of two employees' salaries and fringe benefits for time they spent working on non-Grant activities. Additionally, the Hospital used \$5,490 in Grant funds to pay an employee's salary and fringe benefits without supporting documentation. The Hospital did not maintain periodic certifications that the employee worked solely on Grant activities, or personnel activity reports to support whether the employee's time was spent on Grant or non-Grant activities. The Hospital also used \$87,883 in Grant funds to pay the Vice President of Strategic Management's salary and fringe benefits that were not permitted by the Grant Agreement.

## The Hospital Did Not Ensure That \$21,035 In Program Income Supported The Grant's Activities

The Hospital did not follow Special Purpose Grant Agreement OH12-SPG-517 and HUD's regulation to ensure that income directly generated by the Grant was used to support other Grant activities. The Hospital provided health care services to businesses participating in its Corporate Health Alliance activity that was funded by the Special Purpose Grant. Between January 1997 and January 1998, the Hospital received \$21,035 in program income from the businesses that was not used to support the Grant.

The Hospital Did Not Charge For \$10,989 In Grant Services

Contrary to Special Purpose Grant Agreement OH12-SPG-517 and Office of Management and Budget Circular A-87, the Hospital failed to use sound management principles when it did not charge itself for Grant services provided to its employees. The Hospital provided \$10,989 in health care services to its employees and members of the Hospital's Wellness Center for Women that participated in the Corporate Health Alliance activity funded by the Special Purpose Grant. However, the Hospital did not charge for the services.

The Hospital's Use Of Special Purpose Grant Funds Did Not Support Its Grant Activities

Contrary to Special Purpose Grant Agreement OH12-SPG-517 and Office of Management and Budget Circular A-87, the Hospital used \$8,926 in Grant funds for: public relations items that did not specifically promote its Grant activities, and training and travel expenses for individuals that were not employed by the Hospital.

Recommendations

We recommend that HUD's Director of the Columbus Multifamily Hub, Ohio State Office, require the Hospital to reimburse the Special Purpose Grant OH12-SPG-517 for the questioned disbursements and program income, and assure that the Hospital implements procedures and controls to correct the weaknesses cited in this report.

We presented our draft findings to the Hospital's Chief Financial Officer and HUD's staff during the audit. The Hospital's Chief Executive Officer declined our offer for an exit conference; however, the Chief Financial Officer did provide written comments to the draft findings. The Hospital agreed to reimburse the Special Purpose Grant OH12-SPG-517 for the improper use of Grant funds to pay personnel expenses, public relations items, training and travel expenses, and for the program income that was not used to support other Grant activities. The Hospital also agreed to implement procedures and controls to ensure that it follows Special Purpose Grant Agreement OH12-SPG-517, HUD's regulations, and/or Office of Management and Budget Circular A-87 regarding the use of Grant funds. The Hospital made no comment to reimburse the Special Purpose Grant OH12-SPG-517 for the \$10,989 in Grant services that were provided to the Hospital's employees, but was not charged.

We included paraphrased excerpts of the Hospital's comments with each finding. The complete text of the comments is in Appendix B.

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# Introduction

HUD awarded the Alliance Community Hospital three Special Purpose Grants between January 1993 and December 1994. The three Grants were: OH12-SPG-32 for \$1,250,000; OH12-SPG-509 for \$1,500,000; and OH12-SPG-517 for \$500,000. As of March 20, 2001, the Hospital used all the Grant funds from OH12-SPG-32 and OH12-SPG-517, and the Hospital expended \$215,148 in Grant funds from OH12-SPG-509.

The OH12-SPG-32 Grant was awarded to pay for construction costs to connect the Hospital's main building to an extended care facility operated by the Hospital. Additionally, the Hospital was to use the Grant funds to purchase 11 ventilator units to assist patients residing in the facility. The Hospital completed the construction work and the purchase of the ventilator units in 1995.

HUD awarded the OH12-SPG-509 Grant to the Hospital to purchase land and construct an assisted living center for elderly individuals. The center is expected to include 25 to 35 units that will accommodate 25 to 42 elderly individuals. As of February 2001, the Hospital had completed the purchase of the land; however, construction work had not started on the center.

The OH12-SPG-517 Grant was awarded to the Hospital to establish a Corporate Health Alliance activity to address heart disease, cancer, and stroke among area residents. The Hospital planned to assist 12,500 residents through the activity. The Hospital continued to fund the activity after all of the Grant funds were used.

The Hospital was incorporated under the laws of the State of Ohio in October 1946. The Hospital is governed by a 22 member Board of Trustees. Stan W. Jonas is the Chief Executive Officer. The Hospital's official records for the Grants are located at 264 East Rice Street, Alliance, Ohio.

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## Audit Objectives

The audit objectives were to determine whether: the Special Purpose Grants funds were used efficiently and effectively; and the Hospital complied with the terms of the Grant Agreements.

## Audit Scope And Methodology

We conducted the audit at HUD's Cleveland Area Office and the Hospital's office. We performed our on-site audit work between November 2000 and March 2001.

To determine whether the Hospital used its Special Purpose Grants funds efficiently and effectively and complied with the terms of the Grant Agreements, we interviewed HUD's staff and the Hospital's current and former employees. We analyzed the following items: Grants files; cash receipts, disbursements, and general ledgers; vendor invoices and contracts; employee payroll records and job descriptions; equipment records; and

audited financial statements. We also reviewed: HUD's files for the Hospital; the Special Purpose Grant Agreements (OH12-SPG-32, OH12-SPG-509, and OH12-SPG-517) between HUD and the Hospital; Part 84 of Title 24 of the Code of Federal Regulations, Grants and Agreements with Institutions of Higher Education, Hospitals, and other Non-Profit Organizations; Office of Management and Budget Circular A-87; HUD's Appropriations Act for 1995; and the House of Representatives Conference Reports 102-226 and 103-715.

The audit covered the period from May 1, 1995 to October 31, 2000. This period was adjusted as necessary. We conducted the audit in accordance with generally accepted government auditing standards.

We provided a copy of this report to the Hospital's Chief Executive Officer.

# The Hospital Improperly Used Grant Funds To Pay Personnel Expenses

The Alliance Community Hospital did not follow Special Purpose Grant Agreement OH12-SPG-517, HUD's regulation, and/or Office of Management Budget Circular A-87 when it used Grant funds to pay employees' salaries and fringe benefits. Specifically, the Hospital improperly used \$6,065 in Grant funds to pay part of two employees' salaries and fringe benefits for time they spent working on non-Grant activities. Additionally, the Hospital used \$5,490 in Grant funds to pay an employee's salary and fringe benefits without supporting documentation. The Hospital did not maintain periodic certifications that the employee worked solely on Grant activities, or personnel activity reports to support whether the employee's time was spent on Grant or non-Grant activities. The Hospital also used \$87,883 in Grant funds to pay the Vice President of Strategic Management's salary and fringe benefits that were not permitted by the Grant Agreement. The Hospital did not have sufficient procedures and controls over the Special Purpose Grant to ensure funds were used properly. As a result, HUD funds were not used effectively and efficiently.

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## Federal Requirements

Article I, paragraph E, of Special Purpose Grant Agreement OH12-SPG-517, between HUD and the Alliance Community Hospital, required the Hospital to follow the requirements of Office of Management and Budget Circular A-87, Cost Principles for State, Local, and Indian Tribal Governments. Paragraph I of the Agreement required the Hospital to follow other applicable regulations, such as 24 CFR Part 84, Grants and Agreements with Institutions of Higher Education, Hospitals, and other Non-Profit Organizations.

Office of Management and Budget Circular A-87, Attachment A, paragraph C(1)(a), requires that all costs must be necessary and reasonable for proper and efficient administration of Federal Awards. In addition, paragraph C(1)(j) requires all costs to be documented. Attachment B(11)(h)(3) of the Circular says where employees are expected to work solely on a single Federal award, charges for their wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. Paragraph (4) states where employees work on multiple activities, a distribution of their wages will be supported by personnel activity reports or equivalent documentation. Such documentary support will be required where employees work on a Federal award and a non-Federal award.

The Hospital Lacked  
Documentation To Support  
Personnel Expenses

24 CFR Part 84.25(b) requires grant recipients to report deviations from budget and program plans, and request prior approval for budget and program revisions. Part 84.25(c)(2) states that for non-construction awards, grant recipients will request prior approvals from HUD for a change in a key person specified in the application or award document.

Contrary to Office of Management and Budget Circular A-87, the Alliance Community Hospital used Special Purpose Grant funds to pay employees' salaries and fringe benefits without supporting documentation.

In 1994, HUD awarded a \$500,000 Special Purpose Grant to the Alliance Community Hospital. The Grant was awarded to establish a Corporate Health Alliance to address heart disease, cancer, and stroke prevention among industrial workers. The Hospital used part of the Grant funds to pay for its employees' salaries and fringe benefits to carry out the Grant's activities.

The Hospital lacked documentation to support employees' salaries and fringe benefits charged to the Special Purpose Grant between December 1995 and August 1998. The Hospital did not maintain periodic certifications to verify that employees worked solely on the Grant's activities as required by the Grant Agreement and Office of Management and Budget Circular A-87. The Hospital used a total of \$185,948 in Grant funds to pay 100 percent of the salaries and benefits of its Wellness Services Directors, Coordinators, and a Program Assistant.

To determine the amount of time the Hospital's employees spent working on the Special Purpose Grant, we interviewed the employees and reviewed their position descriptions when possible. For the employees that we were unable to interview, we reviewed their position description when available to determine the amount of time they worked on the Grant.

The position description for the Hospital's former and current Wellness Services Directors showed that the Directors' duties were limited to the Special Purpose Grant. However, the Directors said they spent approximately 10 percent of their time working on non-Grant activities such as attending the Hospital's management meetings. Using the Directors' estimates, we

determined that the Hospital overcharged the Grant \$6,065 to pay the Directors' salaries and fringe benefits.

The current Coordinator for the Hospital said she spent all of her time working on the Special Purpose Grant's activities. This was supported by the Coordinator's position description that showed her duties were limited to the Grant. Based upon the Coordinator's statement and her position description, we determined that the Hospital's use of Grant funds to pay the Coordinator's salary and fringe benefits was proper.

The former Coordinator and the former Program Assistant were no longer employed by the Hospital; therefore, we were unable to ask them how much time they spent working on non-Grant activities. The position description for the former Coordinator showed that her duties were limited to the Grant. Therefore, we did not question the Hospital's use of Grant funds to pay the former Coordinator's salary and fringe benefits. The Hospital lacked a position description to detail the duties of the former Program Assistant. As a result, we questioned the Hospital's use of \$5,490 in Special Purpose Grant funds to pay the Assistant's salary and fringe benefits.

The Hospital's former Vice President of Strategic Management said he was not aware that the Grant Agreement required the Hospital to comply with Office of Management and Budget Circular A-87 and maintain timesheets or other payroll documentation to support personnel expenses charged to the Grant. As a result, HUD lacks assurance that the salaries and fringe benefits paid by the Special Purpose Grant were reasonable and necessary expenses.

The Hospital Improperly  
Used Grant Funds To Pay  
An Employee

The Hospital used \$87,883 in Special Purpose Grant funds to pay 100 percent of one employee's salary and fringe benefits even though the employee was not included in the Special Purpose Grant Agreement. The funds were used to pay the Hospital's former Vice President of Strategic Management. The position was not included in the Agreement's budget.

The former Vice President of Strategic Management was responsible for providing management direction over the Hospital's marketing/sales staff, public relations employees, and the employees for the Special Purpose Grant. He estimated

that he spent 50 percent of his time on non-Grant activities. The former Vice President said it was necessary to reallocate funds to pay his salary and fringe benefits in order to meet the needs of the Grant. According to the former Vice President, he was not aware that a revision request to HUD was required before deviating from the Grant's approved budget.

HUD's Director of the Cleveland Multifamily Program Center said his Office would not have approved a budget revision if requested by the Hospital. He said the additional personnel expenses to administer the Special Purpose Grant were excessive. As a result, HUD funds were not effectively and efficiently used.

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### Auditee Comments

[Excerpts paraphrased from the Hospital's comments on our draft finding follow. Appendix B, page 29, contains the complete text of the comments for this finding.]

The Hospital agrees that periodic certifications and appropriate time studies to support the employee's time spent on Grant activities were not maintained. The dollar amounts of \$6,065, \$5,490, and \$87,883 will be reimbursed directly to the Special Purpose Grant. For subsequent periods, time studies/periodic certifications will be required for all personnel related to Grant activities. These support documents will be completed on a quarterly basis for two weeks each quarter. The addition of a Compliance Officer along with other procedures will safeguard the proper use of Grant funds.

### OIG Evaluation Of Auditee Comments

The Hospital needs to assure that the procedures it plans to establish will ensure that its controls over the use of Special Purpose Grant funds for personnel expenses meet the Grant Agreement, HUD's regulation, and/or Office of Management and Budget Circular A-87. In regards to the reimbursement to the Grant for the improper personnel expenses, the Hospital needs to ensure that it uses non-Federal funds to complete the reimbursement.

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### Recommendations

We recommend that the Director of the Columbus Multifamily Hub, Ohio State Office, assure that the Alliance Community Hospital:

- 1A. Provides documentation to support the \$5,490 in unsupported salary and fringe benefits expense for the Wellness Services' former Program Assistant. If documentation cannot be provided, the Hospital should reimburse its Special Purpose Grant OH12-SPG-517 \$5,490 from non-Federal funds.
  
- 1B. Reimburses its Special Purpose Grant OH12-SPG-517 \$93,948 (\$6,065 for the former and the current Directors of Wellness Services and \$87,883 for the former Vice President of Strategic Management) from non-Federal funds for the salaries and fringe benefits paid which were not in accordance with the Special Purpose Grant Agreement, Office of Management and Budget Circular A-87, and/or HUD's regulation.
  
- 1C. Establishes procedures and controls to follow the Special Purpose Grant Agreement, HUD's regulation, and Office of Management and Budget Circular A-87 regarding the use of Special Purpose Grant funds.

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## The Hospital Did Not Ensure That \$21,035 In Program Income Supported The Grant's Activities

The Alliance Community Hospital did not follow Special Purpose Grant Agreement OH12-SPG-517 and HUD's regulation to ensure that income directly generated by the Grant was used to support other Grant activities. The Hospital provided health care services to businesses participating in its Corporate Health Alliance activity that was funded by the Special Purpose Grant. Between January 1997 and January 1998, the Hospital received \$21,035 in program income from the businesses that was not used to support the Grant. The Hospital lacked sufficient procedures and controls over the Special Purpose Grant to ensure that program income directly generated by the Grant supported other Grant activities. As a result, fewer funds were available to support the Grant's activities.

### Federal Requirements

Paragraph I of Special Purpose Grant Agreement OH12-SPG-517, between HUD and the Alliance Community Hospital, required the Hospital to follow other applicable regulations such as 24 CFR Part 84, Grants and Agreements with Institutions of Higher Education, Hospitals, and other Non-Profit Organizations.

24 CFR Part 84.2 defines program income as gross income earned by the recipient that is directly generated by a supported activity or earned as a result of the award. Program income includes income from fees for services performed.

24 CFR Part 84.24(b) states in part that program income earned during the project period be retained by the recipient and, in accordance with HUD's regulations or the terms and conditions of the award, be used in one or more of the following ways: added to funds committed to the project by HUD and used to further eligible project or program objectives; and/or deducted from the total project or program allowable cost in determining the net allowable costs on which the Federal share of costs is based.

### The Hospital Did Not Ensure That Program Income Supported The Grant's Activities

Contrary to the Special Purpose Grant Agreement and HUD's regulation, the Alliance Community Hospital did not ensure that \$21,035 in program income directly generated from the Special Purpose Grant was used to support other Grant activities. The

Hospital provided health care services to businesses participating in the Corporate Health Alliance supported with Special Purpose Grant funds. The Hospital billed the businesses for the services and received \$25,056 in payment. However, the Hospital only included \$4,021 in program income for the further benefit of the Grant's activities.

The Hospital did not use the \$21,035 (\$25,056 less \$4,021) in program income to support the Special Purpose Grant's activities due to a change in an accounting procedure. According to a Staff Accountant for the Hospital, the program income was initially credited back to the Grant. In January 1997, she said the procedure was changed and the Grant's income was credited to a miscellaneous income account. The Staff Accountant said she did not agree with the change at the time it was made, but could not remember who made the change or why the change was made. The program income was ultimately deposited into the Hospital's operating account and used to pay non-Grant expenses. As a result, fewer funds were available to support the Grant's activities.

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**Auditee Comments**

[Excerpts paraphrased from the Hospital's comments on our draft finding follow. Appendix B, page 30, contains the complete text of the comments for this finding.]

The Hospital agrees that the revenue should have been offset to the Special Purpose Grant. To ensure that HUD's regulation is followed, all personnel responsible for Grant accounting will become familiar with the regulation and any other that relate to Grant distribution. The \$21,035 will be reimbursed to the Special Purpose Grant OH12-SPG-517.

**OIG Evaluation Of  
Auditee Comments**

The actions proposed by the Hospital, if fully implemented, should ensure that program income generated by the Grant activities is accounted for properly and used in accordance with HUD's regulation. In regards to the reimbursement to the Grant for the improper use of program income, the Hospital needs to ensure that it uses non-Federal funds to complete the reimbursement.

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**Recommendations**

We recommend that the Director of the Columbus Multifamily Hub, Ohio State Office, assure that the Alliance Community Hospital:

- 2A. Reimburses its Special Purpose Grant (OH12-SPG-517) \$21,035 from non-Federal funds for the use of the program income that did not support the Grant's activities as required by the Special Purpose Grant Agreement and HUD's regulation.
- 2B. Establishes sufficient procedures and controls to ensure that it follows the Special Purpose Grant Agreement and HUD's regulation regarding the use of program income directly generated by the Special Purpose Grant.

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## The Hospital Did Not Charge For \$10,989 In Grant Services

Contrary to the Special Purpose Grant Agreement OH12-SPG-517 and Office of Management and Budget Circular A-87, the Alliance Community Hospital failed to use sound management principles when it did not charge itself for Grant services provided to its employees. The Hospital provided \$10,989 in health care services to its employees and members of the Hospital's Wellness Center for Women that participated in the Corporate Health Alliance activity funded by the Special Purpose Grant. However, the Hospital did not charge for the services as was its usual practice. The current Director and Coordinator of the Hospital's Wellness Services, who administered the Grant, said they never discussed billing the Hospital for the services. As a result, the Hospital did not administer the Special Purpose Grant efficiently and effectively, and fewer funds were available to support the Grant's activities.

### Federal Requirements

Article I, paragraph E of the Special Purpose Grant Agreement OH12-SPG-517, between HUD and the Alliance Community Hospital, required the Hospital to follow Office of Management and Budget Circular A-87, Cost Principles for State, Local, and Indian Tribal Governments.

Office of Management and Budget Circular A-87, Attachment A, paragraph A(2)(a)(1), says grant recipients are responsible for the efficient and effective administration of Federal awards through the application of sound management practices.

### The Hospital Did Not Charge For Grant Services Provided

The Hospital used Special Purpose Grant funds to provide \$10,989 in health care services to its employees and members of the Hospital's Wellness Center for Women. The employees and members were participants of the Corporate Health Alliance activity that was supported by the Grant. While the Hospital was permitted to use Grant funds to provide the services, the Hospital did not charge for the services as it did to all the other Health Alliance participants.

Office of Management and Budget Circular A-87 required the Hospital to administer the Special Purpose Grant in an efficient and effective manner using sound management practices. Since the Hospital was a member of the Corporate Health Alliance activity, it should have charged for the services and billed the Hospital for the health care services provided with Grant funds.

The Hospital lacked controls over the Special Purpose Grant to ensure that all participants of the Corporate Health Alliance were charged for services provided with Grant funds. The current Director and Coordinator of the Hospital's Wellness Services, who administered the Grant, said they never discussed billing the Hospital for the services. They said billing the Hospital did not make sense because the Grant funds were received by the Hospital. According to the Director and Coordinator, they did not consider that the Grant funds were not Hospital funds. As a result, the Hospital did not administer the Special Purpose Grant efficiently and effectively, and fewer funds were available to support the Grant's activities.

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**Auditee Comments**

[Excerpts paraphrased from the Hospital's comments on our draft finding follow. Appendix B, page 30, contains the complete text of the comments for this finding.]

It was the Hospital's intent to apply sound management practices in all Grant transactions. For this specific instance, it was not common practice to charge our facility for services performed within.

**OIG Evaluation Of  
Auditee Comments**

We believe that the Hospital should reimburse its Special Purpose Grant \$10,989 from non-Federal funds for failing to charge for the health care services provided to the Hospital's employees and members of its Wellness Center. The Hospital also needs to establish controls to ensure that it follows the Special Purpose Grant Agreement and Office of Management and Budget Circular A-87 regarding the efficient and effective administration of Grant funds through the use of sound management principles.

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**Recommendations**

We recommend that the Director of the Columbus Multifamily Hub, Ohio State Office, assure that the Alliance Community Hospital:

- 3A. Reimburses its Special Purpose Grant OH12-SPG-517 \$10,989 from non-Federal funds for failing to charge for the health care services provided to the Hospital's employees and members of its Wellness Center for Women.

- 3B. Establishes controls to ensure that it follows the Special Purpose Grant Agreement and Office of Management and Budget Circular A87 regarding the efficient and effective administration of Grant funds through the use of sound management principles.

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## The Hospital's Use Of Special Purpose Grant Funds Did Not Support Its Grant Activities

Contrary to the Special Purpose Grant Agreement OH12-SPG-517 and Office of Management and Budget Circular A-87, the Alliance Community Hospital used \$8,926 in Grant funds for: public relations items that did not specifically promote its Grant activities, and training and travel expenses for individuals that were not employed by the Hospital. The Hospital's former Vice President of Strategic Management said he was not aware that the Special Purpose Grant Agreement required the Hospital to follow Office of Management and Budget Circular A-87. As a result, HUD funds were not efficiently and effectively used.

### Federal Requirements

Article I, paragraph E, of the Special Purpose Grant Agreement OH12-SPG-517, between HUD and the Alliance Community Hospital, required the Hospital to follow Office of Management and Budget Circular A-87, Cost Principles for State, Local, and Indian Tribal Governments.

Office of Management and Budget Circular A-87, Attachment A, paragraph E(1), states in part that direct costs are those identified specifically with a particular final cost objective. Paragraph E(2)(b) says typical direct costs chargeable to Federal awards are the cost of materials acquired, consumed, or expended specifically for the purpose of those awards. Attachment B, paragraph 2(b) of the Circular, states in part that the term "public relations" includes community relations and means those activities dedicated to maintaining or promoting understanding and favorable relations with the community, the public at large, or any segment of the public. Paragraph 2(d)(1) says public relations costs are allowable when specifically required by the Federal award and then only as a direct cost.

Attachment B, paragraph 41(a), of Office of Management and Budget Circular A-87 permits the use of Federal funds for travel by a recipient's employees on official business. Paragraph 40 of Attachment B states that only the cost of employee training of the Federal award recipient is allowable.

### The Hospital Purchased Items To Promote Itself

The Hospital used \$8,522 in Special Purpose Grant funds for public relations items that did not specifically promote its Grant activities. The items included promotional pens, pencils,

litterbags, and stadium cups that contained the Hospital's insignia. Contrary to Office of Management and Budget Circular A-87, the Hospital did not ensure that the public relations items specifically promoted the Grant activities. The items promoted only the Hospital.

The Use of Grant Funds  
Did Not Support The Grant  
Activities

The Hospital used \$254 in Special Purpose Grant funds to purchase airline tickets for two individuals to attend an informational meeting in Indianapolis, Indiana. The meeting was held with a supplier to the Hospital's Corporate Health Alliance program funded with Grant funds. However, the two individuals were not employees of the Hospital. The Hospital was not permitted to use Grant funds to pay for the two individuals' airline tickets according to Office of Management and Budget Circular A-87.

The Hospital also used \$150 in Special Purpose Grant funds to pay the training expenses for two individuals that were not employees of the Hospital. Office of Management and Budget Circular A-87 prohibited the Hospital from using Grant funds to pay for the non-employees' training expenses. The training was provided to an Industrial Nurse of an area business and the Director of Human Resources for a local college to attend a one-day wellness conference.

The Hospital's former Vice President of Strategic Management said he was not aware that the Special Purpose Grant Agreement required the Hospital to follow Office of Management and Budget Circular A-87. He also said he was not aware that Circular A-87 did not permit Federal funds to be used to pay for public relations items that did not specifically promote the Federal award or to pay expenses of individuals that were not employees of the Hospital. As a result, HUD funds were not effectively and efficiently used.

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Auditee Comments

[Excerpts paraphrased from the Hospital's comments on our draft finding follow. Appendix B, pages 31 and 32, contains the complete text of the comments for this finding.]

The Hospital agrees that Grant funds were expended for non-Hospital employee training and travel, which did not follow Office of Management and Budget Circular A-87. The \$404

relating to those costs will be reimbursed to the Special Purpose Grant OH12-SPG-517.

To ensure that the Hospital follows the Special Purpose Grant Agreement and Office of Management and Budget Circular A-87, a procedure will be initiated where personnel responsible for administering Grant funds will be required to become familiar with Circular A-87 and any other Federal regulations relating to the distribution of Grant monies. Subsequent to the awarding of the Special Purpose Grant OH12-SPG-517, a Director of Compliance was appointed. This individual has the necessary credentials to assist personnel responsible for Grant monitoring.

In regards to the \$8,522 in public relation items, the Hospital contends that when originally purchased a portion of these items were solely intended for Special Purpose Grant use. It seems a portion of this inventory was inadvertently utilized for other than Grant activities. The \$8,522 will be reimbursed to the Special Purpose Grant OH12-SPG-517.

The Hospital believes that it implemented procedures to safeguard the effective and efficient use of HUD funds for the future. As in the past, the Hospital appreciates the ability to utilize HUD Grant funds to provide quality medical services in its community.

OIG Evaluation Of  
Auditee Comments

The actions planned by the Hospital, if fully implemented, should ensure that Special Purpose Grant funds are used in accordance with the Grant Agreement and Office of Management and Budget Circular A-87. In regards to the reimbursement to the Grant for the improper use of Grant funds, the Hospital needs to ensure that it uses non-Federal funds to complete the reimbursement.

Recommendation

We recommend that the Director of the Columbus Multifamily Hub, Ohio State Office, assure that the Alliance Community Hospital:

- 4A. Reimburses its Special Purpose Grant OH12-SPG-517 \$8,926 (\$8,522 for the public relations items, \$254 for the airline tickets, and \$150 for the training expenses)

from non-Federal funds for the use of Grant funds which was not in accordance with the Grant Agreement and Office of Management and Budget Circular A-87.

- 4B. Establishes procedures and controls to ensure that it follows the Special Purpose Grant Agreement and Office of Management and Budget Circular A-87 regarding the use of Grant funds.

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# Management Controls

In planning and performing our audit, we considered the management controls of the Alliance Community Hospital in order to determine our auditing procedures, not to provide assurance on the controls. Management controls include the plan of the organization, methods, and procedures adopted by management to ensure that its goals are met. Management controls include the processes for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance.

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## Relevant Management Controls

We determined the following management controls were relevant to our audit objectives:

- Program Operations - Policies and procedures that management has implemented to reasonably ensure that a program meets its objectives.
- Validity and Reliability of Data - Policies and procedures that management has implemented to reasonably ensure that valid and reliable data are obtained, maintained, and fairly disclosed in reports.
- Compliance with Laws and Regulations - Policies and procedures that management has implemented to reasonably ensure that resource use is consistent with laws and regulations.
- Safeguarding Resources - Policies and procedures that management has implemented to reasonably ensure that resources are safeguarded against waste, loss, and misuse.

We assessed all of the relevant controls identified above.

It is a significant weakness if management controls do not provide reasonable assurance that the process for planning, organizing, directing, and controlling program operations will meet an organization's objectives.

## Significant Weaknesses

Based on our review, we believe the following items are significant weaknesses:

- Program Operations.

The Hospital was not operated according to program requirements. Specifically, the Hospital: improperly used \$6,065 in Special Purpose Grant funds (OH12-SPG-517) to pay part of two employees' salaries and fringe benefits for time they spent working on non-Grant activities; used \$5,490 in Grant funds to pay an employee's salary and fringe benefits without supporting documentation; did not maintain periodic certifications that the employee worked solely on Grant activities, or personnel activity reports to support the employee's time spent on the Grant and non-Grant activities; used \$87,883 in Grant funds to pay the Vice President of Strategic Management's salary and fringe benefits that were not permitted by the Grant Agreement; received \$21,035 in program income from businesses participating in its Corporate Health Alliance activity funded by the Grant but the income was not used to support the Grant; failed to use sound management principles when it did not charge itself for \$10,989 in Grant services provided to its employees; and used \$8,926 in Grant funds for public relations items that did not specifically promote its Grant activities, and training and travel expenses for individuals that were not employed by the Hospital (see Findings 1, 2, 3, and 4).

- Compliance with Laws and Regulations

The Hospital did not follow HUD's regulations and/or Office of Management and Budget Circular A-87 regarding personnel expenses, program income, sound management practices, public relations expenses, and training and travel costs (see Findings 1, 2, 3, and 4).

- Safeguarding Resources

The Hospital improperly used: \$6,065 in Special Purpose Grant funds (OH12-SPG-517) to pay part of two employees' salaries and fringe benefits for time they spent working on non-Grant activities; \$5,490 in Grant funds to pay an employee's salary and fringe benefits without supporting documentation; \$87,883 in Grant funds to pay the Vice President of Strategic Management's salary and fringe benefits that were not permitted by the Grant Agreement; and \$8,926 in Grant funds for public relations items that did not specifically promote its

Grant activities, and training and travel expenses for individuals that were not employed by the Hospital. (see Findings 1 and 4). The Hospital also received \$21,035 in program income from businesses participating in its Corporate Health Alliance activity funded by the Grant but the income was not used to support the Grant, and failed to use sound management principles when it did not charge itself for \$10,989 in Grant services provided to its employees (see Findings 2 and 3).

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# Follow Up On Prior Audits

This is the first audit of the Alliance Community Hospital's Special Purpose Grants (OH12-SPG-32, OH12-SPG-509, and OH12-SPG-517) by HUD's Office of Inspector General. The latest single audit report for the Hospital covered the fiscal year ended December 31, 1997. The report did not contain any findings.

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# Schedule Of Questioned Costs

<u>Recommendation</u> <u>Number</u>	<u>Type of Questioned Costs</u>	
	<u>Ineligible 1/</u>	<u>Unsupported 2/</u>
1A		\$5,490
1B	\$ 93,948	
2A	21,035	
3A	10,989	
4A	<u>8,926</u>	<u>          </u>
Total	<u>\$134,898</u>	<u>\$5,490</u>

1/ Ineligible costs are costs charged to a HUD-financed or insured program or activity that the auditor believes are not allowable by law, contract, or Federal, State, or local policies or regulations.

2/ Unsupported costs are costs charged to a HUD-financed or insured program or activity and eligibility cannot be determined at the time of the audit. The costs are not supported by adequate documentation or there is a need for a legal or administrative determination on the eligibility of the cost. Unsupported costs require a future decision by HUD program officials. This decision, in addition to obtaining supporting documentation, might involve a legal interpretation or clarification or Departmental policies and procedures.

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# Auditee Comments

**Affiliated with:**

Alliance Home Health Care  
Alliance Visiting Nurses Association  
Caring Hands  
Community Care Center  
Immediate Medical Services



264 East Rice Street  
Alliance, Ohio 44601  
(330)829-4000

March 2, 2001

Mr. Heath Wolfe  
Assistant Dist. Inspector General  
For Audit, Midwest  
HUD, Ofc of Inst Gen for Audit, Midwest  
Ralph H. Metcalfe Federal Building  
77 W. Jackson Blvd., Suite 2646  
Chicago, IL 60604-3507

Dear Mr. Wolfe:

In response to the draft proposal "The Hospital Improperly Used Grant Funds to Pay Personnel Expenses." Alliance Community Hospital does agree that periodic certifications and appropriate time studies to support the Employee's time spent of Grant Activities were not maintained.

The dollar amounts of \$6,065, \$5,490 and \$87,883 will be reimbursed directly to our Special Purpose Grant funds, per your recommendations.

For subsequent periods, time studies/periodic certifications will be required for all personnel related to Grant Activities. These support documents will be completed on a quarterly basis for two weeks each quarter.

As with other findings I believe the addition of a Compliance Officer along with other procedures will safeguard the proper use of Grant funds.

If you should have any questions, please contact me at 330-829-4344.

Sincerely

/signed/

Joan Platzer  
CFO

**Affiliated with:**

Alliance Home Health Care  
Alliance Visiting Nurses Association  
Caring Hands  
Community Care Center  
Immediate Medical Services



264 East Rice Street  
Alliance, Ohio 44601  
(330)829-4000

February 23, 2001

Mr. Heath Wolfe  
Assistant Dist. Inspector General  
For Audit, Midwest  
HUD, Ofc of Inst Gen for Audit, Midwest  
Ralph H. Metcalfe Federal Building  
77 W. Jackson Blvd., Suite 2646  
Chicago, IL 60604-3507

Dear Mr. Wolfe:

In response to finding "The Hospital Did Not Ensure That \$21,035 In Program Income Supported The Grant's Activities," Alliance Community Hospital does agree that this revenue should have been offset to the Special Purpose Grant.

To ensure that this regulation is followed in further periods all personnel responsible for grant accounting will become familiar with this rule and any other that relate to Grant Distribution. The \$21,035 will be reimbursed to our Special Purpose Grant OH12-SPG-517 per your recommendation.

In response to finding "The Hospital Did Not Charge For \$10,989 In Grant Services." It is felt that it was Alliance Community Hospital's intent to apply sound management practices in all grant transactions.

For this specific instance it was not common practice to charge our facility for services performed within.

If you should have any questions, please contact me at 330-829-4344.

Sincerely

/signed/

Joan Platzer  
CFO

**Affiliated with:**

Alliance Home Health Care  
Alliance Visiting Nurses Association  
Caring Hands  
Community Care Center  
Immediate Medical Services



264 East Rice Street  
Alliance, Ohio 44601  
(330)829-4000

February 13, 2001

Mr. Heath Wolfe  
Assistant District Inspector General  
For Audit, Midwest  
U.S. Dept. of Housing & Urban Development  
Office of Inspector General for Audit, Midwest  
Ralph H. Metcalfe Federal Building  
77 W. Jackson Blvd., Suite 2646  
Chicago, IL 60604-3507

Dear Mr. Wolfe:

In response to the first draft audit findings at the Office of the Inspector General for Audit, HUD, Alliance Community Hospital does agree that Grant funds were expended for non-hospital employee training and travel, which does not follow Budget Circular A-87. The \$404.00 relating to those costs will be reimbursed to our Special Purpose Grant OH12-SPG-517.

To ensure that Alliance Community Hospital follows the Special Purpose Grant Agreement and Office of Management and Budget Circular A-87, a procedure will be initiated where personnel responsible for administering Grant funds will be required to become familiar with Budget Circular A-87 and any other Federal regulations relating to the distribution of Grant monies. Also, subsequent to the awarding of this Grant a Director of Compliance was appointed. This individual does have the necessary credentials to assist personnel responsible for Grant monitoring.

In response to the finding that the Hospital used \$8,522.00 in Grant funds for public relation items that did not specifically promote its Grant activities, Alliance Community Hospital contends that, when originally purchased, a portion of these items were solely intended for Special Purpose Grant use. It seems a portion of this inventory was inadvertently utilized for other than Grant activities. The \$8,522.00 will be reimbursed to the Special Purpose Grant OH12-SPG-517. As mentioned above the same procedures and controls will be put in place to ensure compliance with this Grant.

I believe that we have implemented procedures to safeguard the effective and efficient use of HUD funds in the future. As in the past, we appreciate the ability to utilize HUD Grant funds to provide quality medical services in our community.

Sincerely,

/signed/

Joan Platzer  
Chief Financial Officer

JP:cj



# Distribution

Acting Secretary's Representative, Midwest (2)  
 Senior Community Builder/State Coordinator, Ohio State Office  
 Senior Community Builder/Coordinator, Cleveland Area Office  
 Director of Columbus Multifamily Hub, Ohio State Office (2)  
 Director of Cleveland Multifamily Program Center, Cleveland Area Office  
 Secretary, S (Room 10000)  
 Chief of Staff, S (Room 10000)  
 Acting Assistant Secretary for Administration, A (Room 10110)  
 Deputy Assistant Secretary for Administrative Services, Office of the Executive Secretariat, AX (Room 10139)  
 Acting Assistant Secretary for Congressional and Intergovernmental Relations, J (Room 10120)  
 Director of Departmental Equal Employment Opportunity, U (Room 2112)  
 Senior Advisor to the Secretary, Office of Public Affairs, W (Room 10132)  
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 Deputy Chief of Staff for Intergovernmental Affairs, S (Room 10226)  
 Deputy Assistant Secretary for Public Affairs, W (Room 10222)  
 Special Assistant for Inter-Faith Community Outreach, S (Room 10222)  
 Executive Officer for Administrative Operations and Management, S (Room 10220)  
 General Counsel, C (Room 10214)  
 Deputy General Counsel for Housing, Finance, and Operations, CA (Room 10240)  
 Assistant General Counsel, Midwest  
 Assistant Secretary for Housing-Federal Housing Commissioner, H (Room 9100)  
 General Deputy Assistant Secretary for Housing-Deputy Federal Housing Commissioner, H (Room 9100)  
 Assistant Secretary for Policy Development and Research, R (Room 8100)  
 Assistant Secretary for Community Planning and Development, D (Room 7100)  
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 Assistant Secretary for Fair Housing and Equal Opportunity, E (Room 5100)  
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 Deputy Assistant CFO for Financial Management, FM (Room 2206)  
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 Acting Chief Financial Officer, F (Room 2202)  
 Deputy Chief Financial Officer, F (Room 2202)  
 Director of Audit Coordination/Departmental Audit Liaison Officer, FMA (Room 2206)  
 Director of Risk Management, FMR (Room 2214)  
 CFO Audit Liaison Officer, FMA (Room 2206)  
 Audit Liaison Officer, 3AFI (2)

Acting Director of Enforcement Center, V (200 Portals Building)  
Acting Director of Real Estate Assessment Center, X (1280 Maryland Avenue, SW,  
Suite 800)  
Director of Multifamily Assistance Restructuring, Y (4000 Portals Building)  
Acting Assistant Deputy Secretary for Field Policy and Management, SDF (Room 7108)  
Acquisitions Librarian, Library, AS (Room 8141)  
Staff Director, Subcommittee on Criminal Justice, Drug Policy & Human Resources, B 373  
Rayburn House Office Building, Washington DC 20515  
The Honorable Fred Thompson, Chairman, Committee on Governmental Affairs, 340  
Dirksen Senate Office Building, United States Senate, Washington DC 20510  
The Honorable Joseph Lieberman, Ranking Member, Committee on Governmental Affairs,  
706 Hart Senate Office Building, United States Senate, Washington DC 20510  
Honorable Dan Burton, Chairman, Committee on Government Reform, 2185 Rayburn  
Building, United States House of Representatives, Washington DC 20515  
Henry A. Waxman, Ranking Member, Committee on Government Reform, 2204 Rayburn  
Building, United States House of Representatives, Washington DC 20515  
Ms. Cindy Fogleman, Subcommittee on Oversight and Investigations, Room 212, O'Neil  
House Office Building, Washington DC 20515  
Associated Director of Resources, Community, and Economic Development Division,  
United States General Accounting Office, 441 G Street N.W., Room 2T23, Washington  
DC 20548 (Attention: Stanley Czerwinski)  
Steve Redburn, Chief of Housing Branch, Office of Management and Budget, 725 17<sup>th</sup>  
Street, N.W., Room 9226, New Executive Office Building, Washington DC 20503  
Chief Executive Officer, Alliance Community Hospital