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**REPORT TO THE
SPECIAL STUDIES SUBCOMMITTEE
COMMITTEE ON
GOVERNMENT OPERATIONS
HOUSE OF REPRESENTATIVES**



12

**Review Of Expenditures Incurred
For Health Services Provided
At A Community Health Center
In Bellaire, Ohio** B-166539

Office of Economic Opportunity
Department of Health, Education,
and Welfare

**BY THE COMPTROLLER GENERAL
OF THE UNITED STATES**

SEPT. 16, 1971

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COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

B-166539

Dear Mr. Chairman:

By letter dated December 4, 1969, the former Chairman of the Subcommittee requested that the General Accounting Office audit the expenditures of the Medical Foundation of Bellaire under a grant (Ohio-CG-8868) from the Office of Economic Opportunity (OEO) (see appendix I). The Chairman requested that we audit the expenditures for program year A through program year C (May 18, 1967 through May 31, 1970) because an OEO audit report covering the period July 1 to December 31, 1968, questioned the allowability of certain amounts charged to the grant for that period. Our audit was delayed because OEO and the Medical Foundation engaged in a long period of negotiations to arrive at a mutually acceptable method of allocating costs to the grant.

BACKGROUND

In 1952, with the encouragement of United Mine Workers Welfare and Retirement Fund officials, the Bellaire Medical Group, a professional corporation of physicians, established a clinic in Bellaire, Ohio, available to the entire community. In May 1959 the clinic operation was transferred, at no cost, to a nonprofit corporation--the Medical Foundation of Bellaire. The Medical Foundation now operates three clinics. Physician services for the clinics are provided by the Bellaire Medical Group.

The Medical Foundation provides medical services to beneficiaries of the United Mine Workers Welfare and Retirement Fund, members of families enrolled in a community health centers program (CHC), and fee-for-service patients.

The CHC program, established in May 1967, provides medical service to families who have income below the level of the OEO poverty guidelines. In May 1971, 1,310 families (3,436 people) were enrolled in the program.

The administration of the CHC program, together with 15 other similar OEO-funded programs, was transferred in December 1970 from OEO to the Health Services and Mental Health

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Administration (HSMHA), Department of Health, Education, and Welfare.

Program years included in our review covered the following periods.

<u>Program year</u>	<u>Period</u>
A	May 18, 1967 through June 30, 1968
B	July 1, 1968 " Feb. 28, 1969
C	Mar. 1, 1969 " May 31, 1970

OEO AUDIT AND SUBSEQUENT NEGOTIATIONS

The OEO audit was initiated because the firm of certified public accountants, employed by the Medical Foundation, stated in its audit report that the system of allocating costs to the CHC program should be approved by OEO before an opinion on the financial status of the Medical Foundation could be rendered. The OEO audit questioned the allowability of about \$36,000 of costs charged to the grant for the period July 1 through December 31, 1968, and the audit report stated:

"Our audit of the grantee's system for allocating costs to the OEO program disclosed areas of cost distribution which did not provide an equitable distribution of expenses. The cost distribution system is in need of revision to meet the requirements of OEO and the Foundation for distributing costs that are equitable to all programs."

The problem of allocating expenses among the CHC, United Mine Workers and the fee-for-service program arose because all patients are serviced by the clinics and no method existed to charge the costs directly to each program. It was, therefore, necessary to establish a method to determine what portion of the expenses the various programs should absorb.

In late 1970 OEO and the Medical Foundation agreed on the disposition of the questioned costs and the methods to be used to allocate costs for program years A and B. The resulting methods were termed the "Joseph Method."

While negotiating acceptable cost allocation methods for program years A, B, and C, OEO advised the Medical Foundation that its planning for program year D should consider the development of a simple cost allocation method. OEO offered to provide technical assistance for the development of such a method. In response, the Medical Foundation, in its request for program year D funds, proposed a new cost allocation system simpler than the "Joseph Method." The system proposed by the Foundation was designed by a consultant employed by OEO and since it was based on cost reimbursement principles used by hospitals it was termed the "Medicare Method."

In our opinion, the "Medicare Method" is more workable than the "Joseph Method" and results in equitable allocations of cost. The method provides for the accumulation of costs not directly chargeable to any of the three programs in six cost centers (Medical, Laboratory, X-ray, Pharmacy, Occupancy, and Administration and Accounting). Costs accumulated in the centers are equitably allocated to the three programs (CHC, United Mine Workers, and fee-for-service patients). The "Medicare Method" was approved for program year C (retroactively) and for program year D.

RESULTS OF GAO AUDIT

As requested, we reviewed the expenditures charged to program years A, B, and C. Our review included an analysis of Medical Foundation financial records, the OEO audit report, and the audit reports and related working papers prepared by the firm of certified public accountants employed by the Medical Foundation. We also reviewed internal controls and evaluated the methods used to allocate costs to the grant. We tested individual charges to the accounts, on a sampling basis, by examining supporting documentation to determine the accuracy of the payments and propriety of the charges. We

did not evaluate the effectiveness of the program in meeting the objectives of the grant.

We found that a number of errors had been made in applying the allocation methods (Joseph for program years A and B, Medicare for program year C), and that some previously disallowed expenses had not been deleted from charges to the grant. The amounts questioned by us are relatively insignificant when considered in relation to the total expenses of the program.

The following schedule shows the costs charged to the grant for each year and the adjustments we consider necessary to correct the charges to the grant. Explanations of the adjustments are included as appendixes to the report.

<u>Period</u>	<u>Costs charged to grant</u>	<u>GAO Adjustments</u>	<u>Adjusted amount chargeable to grant</u>
Program Year A	\$ 362,486	\$ (708) (see app. II)	\$ 361,778
" " B	462,811	5,817 (see app. III)	468,628
" " C	<u>741,893</u>	<u>(23,159)</u> (see app. IV)	<u>718,734</u>
Total	<u>\$1,567,190</u>	<u>\$(18,050)</u>	<u>\$1,549,140</u>

OTHER MATTERS

The following information on the number and the work activities of health aides employed by CHC is being furnished as agreed with your office. It was obtained by interviewing CHC officials.

The Project Director said that the program has 17 health aides and that about 1,300 families are enrolled in the program, a ratio of one health aide to about 75 families. He said that an adequate ratio under the existing program would be one health aide to about 100 families. The Project Director stated, however, that the number of enrolled families can be increased when more physicians are added to the Medical Group staff and then all the health aides will be needed.

According to the Director of Visiting Health Services, who is responsible for supervision of the health aides, each health aide prepares a bi-weekly schedule of visits to be made to enrolled families and this schedule is reviewed and approved by a health aide coordinator. He said that each health aide plans seven to nine visits for each day in the field, but the average number of visits each day is between five and six. He said also that the health aide spends about 9 of 20 workdays a month in the field; the remaining time is taken up by staff meetings, team conferences and their planning, and training sessions.

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The Medical Foundation, OEO, and HSMHA have not been given an opportunity to comment on the matters discussed in this report. We plan to make no further distribution of this report unless copies are specifically requested, and then we shall make distribution only after your agreement has been obtained or public announcement has been made by you concerning the contents of the report.

Sincerely yours,



Acting Comptroller General
of the United States

The Honorable William J. Randall
Chairman, Special Studies Subcommittee
Committee on Government Operations
House of Representatives

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NINETY-FIRST CONGRESS
Congress of the United States
House of Representatives
SPECIAL STUDIES SUBCOMMITTEE
OF THE
COMMITTEE ON GOVERNMENT OPERATIONS
RAYBURN HOUSE OFFICE BUILDING, ROOM B377
WASHINGTON, D.C. 20515

December 4, 1969

Honorable Elmer B. Staats
The Comptroller General
General Accounting Office
Washington, D. C. 20548

Dear Mr. Staats:

Attached is a copy of the Great Lakes Regional Auditors Report on the Medical Foundation of Bellaire, an OEO grantee, covering the period from July 1--December 31, 1968.

Because this audit questions charges to the grant applicable to the first six months of program year B and alleges other improprieties, it would appear advisable that a fuller study of the records be made and I, therefore, request that the General Accounting Office make a full and detailed accounting of all funds expended by the grantee--the Medical Foundation of Bellaire--from the beginning of program year A through as current a figure as possible through program year C.

Should you have any questions regarding this audit, kindly have members of your staff contact the Subcommittee Staff Administrator, Mr. Louis I. Freed.

With all best wishes, I am

Sincerely,


JOHN S. MONAGAN
Chairman

GAO ADJUSTMENTS

PROGRAM YEAR A

MAY 18, 1967 - JUNE 30, 1968

	Amount of increase <u>(decrease)</u>
(1) A cash shortage was incorrectly charged to the grant	\$ (15.77)
(2) The grant was charged for the purchase of a mobile trailer unit and its installation on the site of the Bellaire Clinic. The charges included Ohio Sales Tax of \$62.90. The OEO audit report recommended that the amount be disallowed. The Medical Foundation agreed to delete the amount but did not	(62.90)
(3) The expenses of the Bellaire Medical Group, consisting primarily of physicians' salaries, are charged to the grant in the ratio of the value of physician services rendered to CHC patients to the total value of physician services rendered to all patients. Charges to CHC patients were overstated	(241.48)
(4) Telephone expense charged to the grant was overstated	(159.39)
(5) Fringe benefits for clinic personnel were to be allocated to the grant on the basis of the ratio of fringe benefits to total salaries. The calculations showed that fringe benefits were 19.05 percent of salaries. The percentage was applied to the wrong amount, resulting in an overcharge to the grant	(<u>228.61</u>)
Total adjustments - Program Year A	\$ (<u>708.15</u>)

GAO ADJUSTMENTS

PROGRAM YEAR B

JULY 1, 1968 - FEBRUARY 28, 1969

	Amount of increase <u>(decrease)</u>
(1) A cash overage was incorrectly credited to the grant	\$ 10.00
(2) The amount allocable to the grant for Medical Group expenses was not properly calculated, and the Medical Group staff recruiting expense for physicians was charged twice	(1,071.59)
(3) Fringe benefits allocated to the grant were not properly calculated. See note (5) Appendix II. The percentage of fringe benefits to total salaries was applied to the improper amount	7,508.18
(4) Duplicate charge of fringe benefits	(108.03)
(5) According to the agreement with OEO, contributions are not proper charges to the grant	(2.00)
(6) The amount of space cost charged to the grant was overstated	(114.38)
(7) Cost of injections was allocated to the grant incorrectly	<u>(404.72)</u>
Total adjustments - Program Year B	\$ <u>5,817.46</u>

GAO ADJUSTMENTS

PROGRAM YEAR C

MARCH 1, 1969 - MAY 31, 1970

	Amount of increase (decrease)
(1) Salaries of \$20,830 were included in an improper category, causing an overcharge of salaries and fringe benefits to the grant	\$(4,501.64)
(2) The expenses of the Bellaire Medical Group were not charged to the grant as intended, resulting in an undercharge	4,794.67
(3) A duplicate charge was made to the grant for space rental	(3,500.00)
(4) Certain costs for space and maintenance were included in an improper category, resulting in an overcharge to the grant	(1,050.74)
(5) Drug costs are charged directly to programs when issued to patients. The grant was charged directly for those drugs used by patients enrolled in the CHC program but also received a pro rata share of drugs dispensed for patients enrolled in other programs	(12,074.93)
(6) Between March 1965 and December 1969, the Medical Foundation incurred legal costs of about \$34,000 to obtain hospital privileges for physicians of the Bellaire Medical Group in hospitals in Wheeling, West Virginia. Prior to March 1965, legal costs of \$12,500 were incurred for similar litigation against the Bellaire City Hospital. Since the case against the Bellaire City Hospital was decided prior to the start of the CHC program, Medical Foundation officers said those costs should not have been allocated to the grant. By excluding those costs the charges to the grant were reduced by \$2,299.33	(2,299.33)
Charging a portion of the legal expense to the grant was approved by OEO because the litigation was considered necessary to carry out the CHC program as well as other Medical Foundation programs	
(7) Certain salaries for maintenance personnel were included in an improper category, causing an overcharge to the grant	(3,616.81)
(8) Miscellaneous charges	(910.27)
Total adjustments - Program Year C	\$(<u>23,159.05</u>)