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Audit Report Number 2009-KC-1008

TO: Francis P. McNally, Director - Congressional Grants Division, DECC

//signed//

FROM: Ronald J. Hosking, Regional Inspector General for Audit, 7AGA

SUBJECT: Grace Hill Used Neighborhood Initiative Grant Funds to Pay Unsupported Payroll Expenses and Duplicated Computer Support Costs

HIGHLIGHTS

What We Audited and Why

We audited Grace Hill Neighborhood Health Centers (Grace Hill) because it received nearly \$15 million in neighborhood initiative grants through fiscal year 2004, 2005, and 2006 appropriations. Our audit objective was to determine whether Grace Hill properly charged payroll and support expenses to the grants.

What We Found

Grace Hill charged unsupported salary and benefit costs to the grants because it did not require grant staff to accurately track their time. Additionally, Grace Hill improperly charged computer support expenses as direct costs to its grants. As a result, it charged more than \$3.2 million in unsupported payroll expenses to the grants and received \$196,690 more than allowable from the grants.

What We Recommend

We recommend that the U. S. Department of Housing and Urban Development (HUD) require Grace Hill to design and implement a process to track actual staff

hours, base future drawdown requests on actual activity, and provide documentation to support salary and benefits charged to the grants or reimburse the grants from nonfederal sources for costs that it cannot adequately support.

Additionally, we recommended that HUD require Grace Hill to review the direct and indirect costs and certify that no other duplications have occurred and strengthen the review process by training the reviewer on what is included in the indirect cost rate.

For each recommendation without a management decision, please respond and provide status reports in accordance with HUD Handbook 2000.06, REV-3. Please furnish us copies of any correspondence or directives issued because of the audit.

Auditee's Response

We provided Grace Hill with our draft report on June 26, 2009. We received its written response on July 14, 2009. Grace Hill generally agreed with our findings.

The complete text of the auditee's response, along with our evaluation of that response, can be found in appendix B of this report.

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BACKGROUND AND OBJECTIVE

Grace Hill Neighborhood Health Centers (Grace Hill) is a nonprofit corporation. It provides primary and preventive health care at five community health center locations, primarily to uninsured and underserved residents of St. Louis, Missouri.

Grace Hill received almost \$15 million in neighborhood initiative grants funded through fiscal year 2004, 2005, and 2006 appropriations administered through the U. S. Department of Housing and Urban Development (HUD). These grants were for primary prevention activities, including lead remediation and abatement of housing in St. Louis. Grace Hill has completed the first two grants and is currently administering the third.

Grace Hill uses the funds to focus on primary prevention activities through the identification of pregnant women and their children who are “at risk” of lead poisoning. This project’s prevention goal was to serve 6,000 families of pregnant women over the three grant years. In addition, the project’s remediation goal was to remediate 900 homes of pregnant women in three years. Grace Hill reports that it is well on the way to meeting and possibly exceeding these goals.

Our audit objective was to determine whether Grace Hill properly charged payroll and support expenses to the grants.

RESULTS OF AUDIT

Finding 1: Grace Hill Used Improper Payroll Allocation

Grace Hill improperly charged payroll expenses to its grants. This condition occurred because Grace Hill did not require grant staff to properly track their time. As a result, it charged more than \$3.2 million in unsupported payroll expenses to the grants.

Grace Hill Improperly Charged Payroll Expenses

Grace Hill improperly charged payroll expenses to its grants. Office of Management and Budget (OMB) Circular A-122, attachment B, paragraph 8-m, requires grantees to maintain reports reflecting the distribution of activity for all staff members whose compensation is charged, in whole or in part, directly to awards. Reports maintained to satisfy these requirements must reflect an after-the-fact determination of the actual activity of each employee. Budget estimates (i.e., estimates determined before the services are performed) do not qualify as support for charges to awards.

Grace Hill used budget percentages to charge salary, including benefits, to the grants. These charges were determined before the services were performed. As a result, Grace Hill's payroll charges were not based on actual time spent on grant activities.

Grace Hill Did Not Require Staff to Track Time by Activity

Grace Hill did not require staff to properly track their time spent on grant activities. We found through interviews that only two of Grace Hill's staff were tracking their time, but the time they recorded was not used to calculate the charges to the grant. The remaining staff did not track their time by activity.

In several cases, the amount of time staff estimated that they spent on grant activity differed from the budgeted percentages charged to the grants. Some staff worked on multiple grants, and they estimated that they spent more or less time on the lead grant than their budgeted percentage. In some instances, staff who were charged at 100 percent to the lead grant reported that they also worked on nongrant activities. Since Grace Hill did not require staff to track time by activity, there was no way to know with certainty how much time each staff member spent on grant activities.

Grace Hill Had Unsupported Payroll Charges

Grace Hill charged more than \$3.2 million in unsupported payroll expenses to the grants. This amount was comprised of direct salary and fringe benefits charged to the two completed grants and the open grant. Grace Hill will charge additional unsupported payroll expenses to the grant if its method of charging these expenses is not corrected.

Recommendations

We recommend that the Director of Congressional Grants require Grace Hill to

- 1A. Cease using estimated payroll costs on its drawdown requests.
- 1B. Design and implement a process to ensure that actual staff hours are accurately tracked.
- 1C. Use the resulting actual payroll costs on all future drawdown requests.
- 1D. Provide documentation to support salary and fringe benefits charged to the grants or reimburse the grants from nonfederal sources for costs that it cannot support. These costs should include \$3,228,243 charged to the grants through December 31, 2008.

Finding 2: Grace Hill Duplicated Computer Support Expenses

Grace Hill improperly charged computer support expenses as direct costs to its grants. This condition occurred because the staff reviewing the drawdown requests did not understand that the indirect cost rate already included computer support. As a result, Grace Hill received \$196,690 more than allowable from the grants.

Grace Hill Duplicated Computer Support Costs

Grace Hill improperly charged computer support expenses to the grants. OMB Circular A-122, attachment A, paragraph B, provides that direct costs are those that can be identified specifically with a particular activity of an organization. However, a cost may not be assigned to an award as a direct cost if it has also been allocated to an award as an indirect cost.

Grace Hill charged computer support expenses as both direct and indirect costs. It charged \$167,253 in computer support costs as direct costs as follows:

Grant number	Direct costs charged
Grant B-04-NI-MO-0025	\$42,427
Grant B-05-NI-MO-0019	\$60,249
Grant B-06-NI-MO-0024	\$64,577

Grace Hill also included these costs in the indirect cost percentage applied to the grant, thus duplicating the direct costs.

Grace Hill Performed Ineffective Drawdown Reviews

Grace Hill's reviewer did not understand that the indirect cost rate included computer support expenses. Grace Hill staff indicated that the duplication of computer support expense was a mistake caused by an inconsistent allocation of these expenses. The mistake was not noticed because the reviewer did not understand that the indirect cost percentage included the same costs that were shown again as a direct cost.

Duplicate Charges Resulted in Unallowable Costs

As a result of the duplicate charges, Grace Hill received \$196,690 more than allowable from the grants. This amount included the \$167,253 improperly charged as direct costs plus \$29,437 in associated indirect costs.

Grace Hill, after being made aware of the duplicated charges, offset later drawdown requests.

Recommendations

We recommend that the Director of Congressional Grants

- 2A. Verify that Grace Hill appropriately reimbursed the \$196,690 in duplicate expenses.
- 2B. Require Grace Hill to review the direct and indirect costs and certify that no other duplications have occurred.
- 2C. Strengthen the review process by training the reviewer on what is included in the indirect cost rate.

SCOPE AND METHODOLOGY

To accomplish our objectives, we reviewed the grant agreements, the grant applications, Grace Hill's policies and procedures, the results of prior certified public accountant reviews, and OMB Circular A-122. We also interviewed Grace Hill and HUD staff.

We obtained a spreadsheet from Grace Hill listing 801 addresses (361 projects) with contract estimate amounts totaling approximately \$5.2 million, which had lead remediation work done by contractors selected by Grace Hill. From this list, we chose 19 projects with contract estimate amounts totaling \$565,793. We reviewed these projects' files for evidence of approvals, inspections, contracts, invoices, lien waivers, and payments. We tested whether the contractors used were on Grace Hill's approved contractors list and reviewed the payees, amounts, and endorsements on the cancelled checks.

We also chose six drawdown requests totaling \$1.8 million from a universe of 59 requests totaling \$10 million, which had been submitted to HUD by Grace Hill during the audit period of January 1, 2006, through December 31, 2008. We reviewed the summary-level support for these draws, added up the summaries, and traced some of the summary figures to general ledger printouts to test for compliance with HUD policies and procedures.

We reviewed how Grace Hill charged the computer support, property support, and payroll included in these draws. Additionally, we reviewed the indirect cost rate agreement approved by the U.S. Department of Health and Human Services, which authorized an indirect cost rate of 17.7 percent.

We used printouts and reports generated by Grace Hill's computerized accounting system and supporting documentation to review the lead remediation activities relating to our objective. We also reviewed drawdown requests and their supporting documentation to identify how Grace Hill charged the computer support, property support, and payroll expenses. We assessed the reliability of these data and determined that the data were sufficiently reliable for use in meeting our objective.

We performed audit work from January through May 2009. The on-site audit work was performed at Grace Hill's office at 100 North 12th, St. Louis, Missouri.

We conducted the audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

INTERNAL CONTROLS

Internal control is an integral component of an organization's management that provides reasonable assurance that the following controls are achieved:

- Program operations,
- Relevance and reliability of information,
- Compliance with applicable laws and regulations, and
- Safeguarding of assets and resources.

Internal controls relate to management's plans, methods, and procedures used to meet its mission, goals, and objectives. They include the processes and procedures for planning, organizing, directing, and controlling program operations as well as the systems for measuring, reporting, and monitoring program performance.

Relevant Internal Controls

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

- Controls over processing and allocating staff time charged to the grants.
- Controls over charging support expenses to the grants.

We assessed the relevant controls identified above.

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

Significant Weaknesses

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

Grace Hill did not have adequate controls to

- Ensure that staff time was based on actual time devoted to the grants' activities (finding 1).
- Avoid duplicating computer support costs, which were charged as direct costs and then allocated again using the indirect rate (finding 2).

APPENDIXES

Appendix A

SCHEDULE OF QUESTIONED COSTS

Recommendation number	Ineligible 1/	Unsupported 2/
1D		\$3,228,243
2A	\$196,690	

1/ Ineligible costs are costs charged to a HUD-financed or HUD-insured program or activity that the auditor believes are not allowable by law; contract; or federal, state, or local policies or regulations. In this instance, the duplicated computer expense costs totaling \$196,690 were ineligible costs.

2/ Unsupported costs are those costs charged to a HUD-financed or HUD-insured program or activity when we cannot determine eligibility at the time of the audit. Unsupported costs require a decision by HUD program officials. This decision, in addition to obtaining supporting documentation, might involve a legal interpretation or clarification of departmental policies and procedures. In this instance, the \$3,228,243 in salary and benefits expenses that were improperly based on the budget rather than actual activity were unsupported costs.

Appendix B

AUDITEE COMMENTS AND OIG'S EVALUATION

Ref to OIG Evaluation

Auditee Comments

Grace Hill Neighborhood Health Centers, Inc

Response to June 26, 2009 Audit Report

Office Of Inspector General of the U.S. Department of Housing and Urban Development

Background

Grace Hill Neighborhood Health Center Inc. (Grace Hill) appreciates the professionalism of the auditors of the Office of Inspector General (OIG) of the U. S. Department of Housing and Urban Development (HUD) and takes seriously the comments and suggestions provided in the report dated June 26, 2009. We are committed to meeting the goals as set forth in the nearly \$15 million in grants provided through the Neighborhood Initiative grants and working collaboratively to address the deficiencies as outlined in the report.

Our intent in accepting and performing the grant when it was awarded in 2004 was to meet the goals and comply with all laws, regulations and requirements as outlined by HUD, including the administrative and fiscal requirements. To that end, through June 30, 2009 we have surpassed our goal of providing clinical nursing and health education to 6,000 pregnant women by providing clinical services to 10,286 pregnant women to assess and educate them of the risks associated with exposing infants and children to high lead levels in their homes. Grace Hill has remediated 789 homes of lead based paint contaminants of pregnant women where infants and small children reside. We expect to complete an additional 111 units prior to December 31, 2009 to complete the grant requirements of remediating 900 homes, and we expect to fully spend the grant funds. The number of infants and children in the City of St. Louis exposed to lead levels exceeding the acceptable range has decreased from 13.6% in 2004 to 3.6% in 2008 as a direct result of the prevention and remediation programs performed by Grace Hill and the City of St. Louis with grants from HUD. In addition, the cost to remediate a housing unit has decreased over the period of the grant from \$8,500 per unit to less than \$7,000 per unit as a result of continuously refining our cost-conscious methodology without sacrificing the quality of the remediation activity. Issues with regard to the program goals and requirements were not identified during this review; therefore, we believe that we have complied with the spirit and intent of the Neighborhood Initiative by remediating homes in the St. Louis metropolitan area of lead contaminants. We are proud of the outcomes which have been good for the City of St. Louis and respectfully request reasonableness by the OIG in evaluating these findings and determining the related course of action.

Finding 1: Improper Payroll Allocation

Grace Hill appreciates the information provided by the OIG auditors regarding the interpretation of OMB Circular A-122 for payroll tracking methodology. Over the last 30 years Grace Hill has received federal funding through the Department of Health and Human Services and has been tracking payroll support using a methodology that has been acceptable by various federal audits as well as annual independent audits in compliance with OMB Circular A-133. Since we have learned recently of the more specific requirements as explained by the OIG auditors, we are now diligently working to develop new systems to comply with these requirements.

The following will provide a better understanding of the payroll process under question. Before the HUD lead prevention and remediation program began in 2004, Grace Hill did not employ

Ref to OIG Evaluation

Auditee Comments

lead assessors or any employee familiar with assessing and remediating homes. Up to nine staff members were hired and employed over the course of the lead program whose skills and qualifications were specific to the lead program. An additional two staff with administrative or clinical responsibilities were hired to specifically coordinate the lead program. This team of up to eleven staff was dedicated to the lead grant requirements, did not work on other programs or on other grants, and their positions will not continue when the lead grant ends.

In addition, over the course of the grant from 2004 through the current date, a team of outreach staff, health educators and community health nurses have worked to identify at-risk pregnant women and to bring them into the program. These staff members work a portion of their time on the lead program and the remainder on other objectives of outreach, education and health assessment for Grace Hill.

When a staff member was assigned to the program, a Personnel Action (PA) Form was completed by the Lead Program Director which assigned their salary to the lead program. This allocation was 100% for those staff members who worked solely on the lead grant and was a lesser percentage for other staff based on their responsibilities as documented in their job description. The percentage was then keyed into the payroll system and used to allocate salaries and benefits each period based on a signed and approved timesheet which documented the total daily time each individual worked. As an individual's responsibilities changed, the percentage on the PA Form was changed to reflect the new duties. In some cases this was done after the fact with retroactive adjustments when it became apparent that an individual was spending less or more time on the grant than documented on the PA Form.

At question is the fact that those who dedicated all of their time on the lead grant did not sign a statement each pay period indicating that all of their time was spent working on the lead grant. Also at question is that those who spent only a portion of their time on the lead grant did not specifically show the hours by day spent working on each grant. In all cases, the salaries and benefits were charged based on the percentage documented on the PA Form rather than an actual charge based on a timesheet which specifically documented the time spent working on the lead program.

Grace Hill's current payroll system was not designed to specifically charge salaries and benefits to programs based on specific hours worked. During 2009 we plan to identify and implement a new time and attendance system and will include this as a requirement of the new system. **To address this deficiency prior to the implementation of an automated system and ensure compliance with OMB Circular A-122 immediately, Grace Hill has modified procedures to ensure that timesheets for each individual working on the lead grant document the time spent on the program. We will manually adjust the payroll charges on a monthly basis to reflect actual time worked on the grant.**

In summary, federal audits performed by other grant agencies, as well as our independent auditors have not taken exception to our practice of using a PA Form to document the percentage of time that an employee is working on a specific grant, and using it along with a time sheet to document total hours worked to charge payroll and benefits to grants. We relied on the acceptance of this method throughout the four years that the HUD Neighborhood Initiative grant

Comment 1

Comment 2

Ref to OIG Evaluation

Auditee Comments

Comment 3

has been in place. We respectfully request that Grace Hill not be penalized retroactively at this late hour for not using the specific method of documenting hours worked on the lead grant for each employee by pay period as communicated to us by the OIG auditors.

Finding 2: Duplicated Computer Support Expenses

As stated in the auditor's report, Grace Hill recognizes that \$167,253 of computer support charges were drawn down over the period of the three grants in addition to the indirect cost percentage of 17.7%. Including both in the draw down calculation duplicated the total computer support expenses since those expenses were also included in the indirect rate. The staff member completing the drawdown calculation and the reviewer did not understand that computer support expenses are included in the indirect rate calculation as approved by the Department of Cost Allocation of the Department of Health and Human Services. As a result of this inadvertent oversight, \$167,253 of computer expense should not have been included in the draw down calculation. Removing these expenses also resulted in a reduction of indirect expenses totaling \$29,437. **When the error was brought to our attention, the duplication totaling \$196,690 was deducted from the drawdown requested on May 5, 2009.**

To strengthen the drawdown process, the accountant who prepares the calculation and the reviewer have been trained to understand the components of the indirect rate calculation. In addition, the drawdown form has been revised to remove the computer support line item.

OIG Evaluation of Auditee Comments

- Comment 1** We appreciate Grace Hill's prompt action in response to our audit.
- Comment 2** We appreciate Grace Hill's position concerning our recommendation which retroactively penalizes it for not properly tracking hours worked by its staff. However, the grant agreements that Grace Hill signed in 2004, 2006, and 2007, notified it that it had to comply with the requirements of OMB Circular A-122.
- Comment 3** We appreciate Grace Hill's prompt action in response to our audit.