PUBLIC HOSPITAL DISTRICT NO. 1
AND PUBLIC HOSPITAL DISTRICT NO. 304 OF SKAGIT COUNTY
DBA AFFILIATED HEALTH SERVICES
Skagit County, Washington
January 1, 1993 Through December 31, 1993

Schedule Of Federal Findings

1. Affiliated Health Services Should Retain Time, Effort, And Distribution Records To Support Federal Reimbursement Requests

Payroll charges are made to the Special Supplemental Food Program for Women, Infants, and Children (WIC) (CFDA No. 10.557), were based on the budget as approved in the grant agreement. Time and effort distribution records were not retained to support this allocation.

The U.S. Office of Management and Budget (OMB) Circular A-87, *Cost Principles Applicable to Grants and Contracts*, establishes standards for documentation and allowability of costs charged to federal grant programs. Among these standards are:

a. Amounts charged to grant programs for personal services will be based on payrolls supported by time and attendance or equivalent records for individual employees.

b. Salaries and wages of employees chargeable to more than one cost objective must be supported by time distribution records.

OMB Circular A-87 specifically requires that charges to a federal program must:

> . . . reflect an after-the-fact distribution of the actual activity of each employee. Budget estimates before services are performed do not qualify as support for charges to awards.

The grant award contract, Exhibit A No. 13 states:

> The contractor shall maintain complete, accurate, and current accounting of all local, state and federal program funds received and expended.

It appears that the lack of appropriate documentation is partially attributable to Affiliated Health Services staff's inexperience with federal grant requirements.

In the absence of a system that meets the federal requirements, costs could be charged to the federal program which vary from the resources that were actually dedicated to the program. The absence of documentation has resulted in questioned costs of $25,392.80 for 1993 and $19,365.00 for 1992, representing all salary costs charged to the WIC grant. In addition, the hospital prepares a nutrition education expenditure report to the Washington State Department of Health. As a result of the lack of documentation, the

hours and percentages reported could not be supported. This is considered a material weakness.

We recommend Affiliated Health Services work with the Department of Health to resolve the above noted questioned costs. We further recommend Affiliated Health Services establish a system for tracking actual expenses eligible for federal reimbursement. Future reimbursement requests be limited to expenditures so identified.

2. Affiliated Health Services Should Maintain Adequate Documentation To Support Federal Reimbursement Requests For Payroll Charges

Payroll charges were made to the federal Injury Prevention Program (CFDA 93.136), based on a standard percentage (20 percent) of the coordinator's salary as approved in the grant agreement. Time and effort distribution records were not retained to support this allocation. Additionally, administrative costs of 10 percent of the grant budget were claimed. No records were retained to document what the administrative allocation was used for nor was it charged in accordance with an approved indirect cost allocation plan.

The U.S. Office of Management and Budget (OMB) Circular A-87, *Cost Principles Applicable to Grants and Contracts*, establishes standards for documentation and allowability of costs charged to federal grant programs. Among these standards are:

a. Amounts charged to grant programs for personal services will be based on payrolls supported by time and attendance or equivalent records for individual employees.

b. Salaries and wages of employees chargeable to more than one cost objective must be supported by time distribution records.

OMB Circular A-87 specifically requires that charges to a federal program must:

> . . . reflect an after-the-fact distribution of the actual activity of each employee. Budget estimates before services are performed do not qualify as support for charges to awards.

The contract with the Department of Health (DOH) states:

> DOH shall pay to the Contractor for those services provided herein as follows . . . Actual costs in accordance with Exhibit B. (Emphasis ours.)

It appears that the lack of appropriate documentation is partially attributable to Affiliated Health Services staff's inexperience with federal grants. However, based on contact with the staff of the Washington State Department of Health, the method of charging costs to this program was in accordance with their directions. This is considered a material weakness.

In the absence of a system that meets the federal requirements, costs could be charged to the federal program which vary from the resources that were actually dedicated to the program. The absence of documentation has resulted in questioned costs of $7,391.70 for 1993 and $7,140.96 for 1992, representing all salary and administrative costs charged to the Injury Prevention Program.

We recommend Affiliated Health Services work with the Department of Health to resolve the above noted questioned costs. We further recommend Affiliated Health Services establish a system for tracking actual expenses eligible for federal reimbursement. Future reimbursement requests should be limited to expenditures so identified.

3. Affiliated Health Services Should Retain Documentation To Support Expenditures Claimed For Reimbursement For The Special Supplemental Food Program For Women, Infants, And Children (WIC)

Our review disclosed expenses claimed for reimbursement under the Special Supplemental Food Program for Women, Infants, and Children (WIC) (CFDA 10.557) were inadequately documented. Expenses were claimed based on purchase orders issued. These purchase orders were not retained by the department preparing the reimbursement request. No other means could be identified to isolate these expenditures.

Attachment F of Circular A-110 states:

> Recipients' financial management systems shall provide for:
>
> b. Records that identify adequately the source and application of funds for federally sponsored activities. These records shall contain information pertaining to . . . outlays . . .
>
> g. Accounting records that are supported by source documentation.

The grant award contract, Exhibit A No. 13 states:

> The contractor shall maintain complete, accurate, and current accounting of all local, state and federal program funds received and expended.

This condition apparently occurred due to staff misunderstanding of their responsibility for and the nature of the requirements.

As a result of this condition, costs of $1,418 and $2,127 for fiscal years 1993 and 1992, respectively, are being questioned. These costs represent claims for supplies, conferences, other services, and equipment purchases initiated through the payment voucher system.

<u>We recommend</u> Affiliated Health Services work with the Washington State Department of Health to resolve these questioned costs. <u>We further recommend</u> Affiliated Health Services retain sufficient documentation and records to support actual expenditures claimed for federal reimbursement.

4. Affiliated Health Services Should Retain Documentation To Support Expenditures Claimed For Reimbursement For The Preventive Health And Health Services Block Grant

In conjunction with our review of the federal program, Preventive Health and Health Services Block Grant (CFDA 93.991), we noted a weakness in the system for preparing grant reimbursement requests. The staff member responsible for preparing reimbursement requests prepares the request based on the purchase order submitted rather than based on actual cost realized on the invoice. Additionally, miscellaneous supplies and data processing time were not supported.

Attachment F of Circular A-110 states:

> Recipients' financial management systems shall provide for:
>
> b. Records that identify adequately the source and application of funds for federally sponsored activities. These records shall contain information pertaining to . . . outlays . . .
>
> g. Accounting records that are supported by source documentation.

Our review of two months from 1993 and 1992 billing worksheets identified immaterial exceptions of unsupported expenses ranging from $4.71 to $20.00. These unsupported expenses are offset by underclaimed expenses ranging from $4.12 to $10.07. The net overclaimed amount for the two months tested associated with immaterial exceptions was $8.83. In addition, a charge of $370.00 for lab fees could not be traced to payment. A specific invoice for this amount could not be located, possibly due to combining of charges on lab invoices. The lab could not confirm the billing and payment as their records were lost. Total questioned costs for this grant for the two months tested is $378.83.

We recommend Affiliated Health Services prepare reimbursement requests based on actual amounts and maintain adequate records and supporting documentation. We further recommend Affiliated Health Services work with the Washington State Department of Health to resolve questioned costs of at least $378.83.