UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

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April 23, 1982

HUMAN RESOURCES DIVISION

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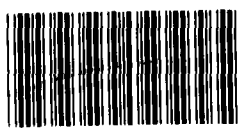
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The Honorable Thomas F. Hartnett
House of Representatives

Dear Mr. Hartnett:

Subject: Review of the Operations of the Sea Island Comprehensive Health Care Corporation and the Franklin C. Fetter Family Health Center (HRD-82-69)

This report is in response to your request that we review the operations of the Sea Island Comprehensive Health Care Corporation (Sea Island) and the Franklin C. Fetter Family Health Center (Fetter) in Charleston, South Carolina. You were primarily concerned about whether these centers were being operated in compliance with grant program requirements and whether there was adequate accountability for the expenditure of Federal funds. Generally, we found instances of noncompliance with Federal grant regulations and poor financial management practices at both centers. The enclosure summarizes the problems we identified at each center.

At Sea Island, the problems were primarily attributable to (1) the practice of commingling funds that supported all of the health care activities and (2) financial management practices that appeared to be designed to maximize Federal grant revenues with little concern for whether Federal funds were being used in accordance with applicable regulations and guidelines. We brought these problems to the attention of the Department of Health and Human Services (HHS), which initiated an independent review to ensure that grant funds were properly safeguarded and accounted for. Based on its independent review, HHS defunded Sea Island.

At Fetter, the problems were primarily attributable to the practice of making purchases and commitments for unbudgeted items and later requesting retroactive approval from HHS. HHS' willingness to grant retroactive approval appeared to foster the continuation of this practice. Prior to our review, HHS had evaluated certain financial management practices at Fetter, and during our review, the grantee was defunded.

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In the past, HHS' oversight role in identifying and correcting these grantees' program deficiencies had been inadequate. However, as our work began to focus attention on the problems, HHS acted to resolve them. As of March 1982, HHS had defunded these community health centers. However, it planned to continue providing services at both locations by funding an entirely new board of directors, including local elected officials, under Fetter's corporate structure. This new board will control the Fetter and Sea Island health centers.

OBJECTIVES, SCOPE, AND METHODOLOGY

Our objectives were to review the operations of the Sea Island and Fetter community health centers and assess their financial management practices and compliance with Federal grant regulations. Our review concentrated on grant funds received under Section 330 of the Public Health Service Act. Our review was performed at Sea Island and Fetter and at HHS Region IV in Atlanta, Georgia.

Our review, which took place between August and December 1981, was conducted in accordance with the Comptroller General's "Standards for Audit of Governmental Organizations, Programs, Activities, and Functions."

The work at Sea Island and Fetter concentrated on grantee financial management practices and compliance with grant regulations. We focused on the most recently completed budget periods for each grantee; however, to the extent warranted, we also reviewed transactions which occurred in earlier and later periods. We reviewed grantee administrative and financial records and spoke with grantee officials. We also followed up on certain transactions with affected parties outside the grantee organizations, including certified public accountants, attorneys, and Department of Housing and Urban Development and Farmers Home Administration officials.

The work at the HHS regional office consisted of reviewing grant files on Sea Island and Fetter and discussing our findings and HHS' oversight role with regional officials.

Onsite work at both Sea Island and Fetter was curtailed before its completion. When HHS notified Fetter that it had been defunded, we discontinued our work there. Similarly, our work at Sea Island was stopped when HHS performed its financial management assessment of the Sea Island operations. Nevertheless, we believe our work at both locations was sufficiently complete to identify a number of problems and questionable activities which we brought to the attention of HHS and it acted to resolve them.

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As requested by your office, we have not obtained written comments on the results of our work. However, we discussed our review with officials of HHS' Bureau of Community Health Services--the organization responsible for funding these centers. Unless you publicly announce its contents earlier, we plan no further distribution of this report until 30 days from its issue date. At that time, copies will be sent to interested parties and will be made available to others on request.

Sincerely yours,

Gregory J. Ahart
Director

Enclosure

ENCLOSURE I

SUMMARY OF COMPLIANCE AND FINANCIAL MANAGEMENT PROBLEMS AT SEA ISLAND COMPREHENSIVE HEALTH CARE CORPORATION AND FRANKLIN C. FETTER FAMILY HEALTH CARE CENTER

Contents

ABBREVIATIONS

HHS	Department of Health and Human Services
HUD	Department of Housing and Urban Development
OEO	Office of Economic Opportunity

CHAPTER 1

INTRODUCTION

This summary focuses on the operations and financial management activities of the Sea Island Comprehensive Health Care Corporation (Sea Island) and the Franklin C. Fetter Family Health Care Center (Fetter) in Charleston County, South Carolina, and those centers' compliance with Federal grant regulations.

AUTHORITY AND FUNDING

Section 330 of the Public Health Service Act authorizes grants to public or nonprofit private entities, such as Sea Island and Fetter, to operate community health centers that provide primary health care services to medically underserved populations. Section 330, enacted in 1975, replaced Section 314(e) of the act, under which similar health centers were previously funded. Both Sea Island and Fetter were originally funded by the Office of Economic Opportunity (OEO) and were transferred to the Department of Health and Human Services (HHS) for administration and funding purposes in 1973 and 1972, respectively.

SEA ISLAND COMPREHENSIVE HEALTH CARE CORPORATION

Sea Island was established as a nonprofit private corporation to provide health care to the residents of five islands in southern Charleston County. Sea Island received its initial Federal grant from OEO in July 1971, and a year later it began providing medical services at a site on Johns Island and a satellite clinic on Yonges Island. Sea Island has received Federal grant funds annually since 1971 from OEO and HHS. Sea Island's latest grant award was for calendar year 1981 and was based on an approved budget of $2,885,429, of which $1,779,586 was provided by HHS for Section 330 purposes.

Sea Island's community health center activities were operated as part of a health care and housing complex. Sea Island received other Federal funds to operate home health, alcohol counseling, and nutrition programs. It also operated an 88-bed nursing home, 84 percent of which served Medicaid patients. The nursing home opened in 1980 and was expected to be financially self-sufficient. A Farmers Home Administration loan of almost $3 million was used for constructing the nursing home and a new health center facility on Johns Island.

Sea Island Community Development Funds, Inc., an integral part of the Sea Island health care and housing complex, was incorporated in 1974 to lease land and office space to participants in Sea Island's health care operations. This corporation operated a rural housing project constructed with a loan from

the Department of Housing and Urban Development (HUD) and a water treatment facility which serves the Sea Island complex.

The same board of directors controlled Sea Island's health care and community development activities. A core management group provided managerial, financial, data processing, and other administrative support for both activities.

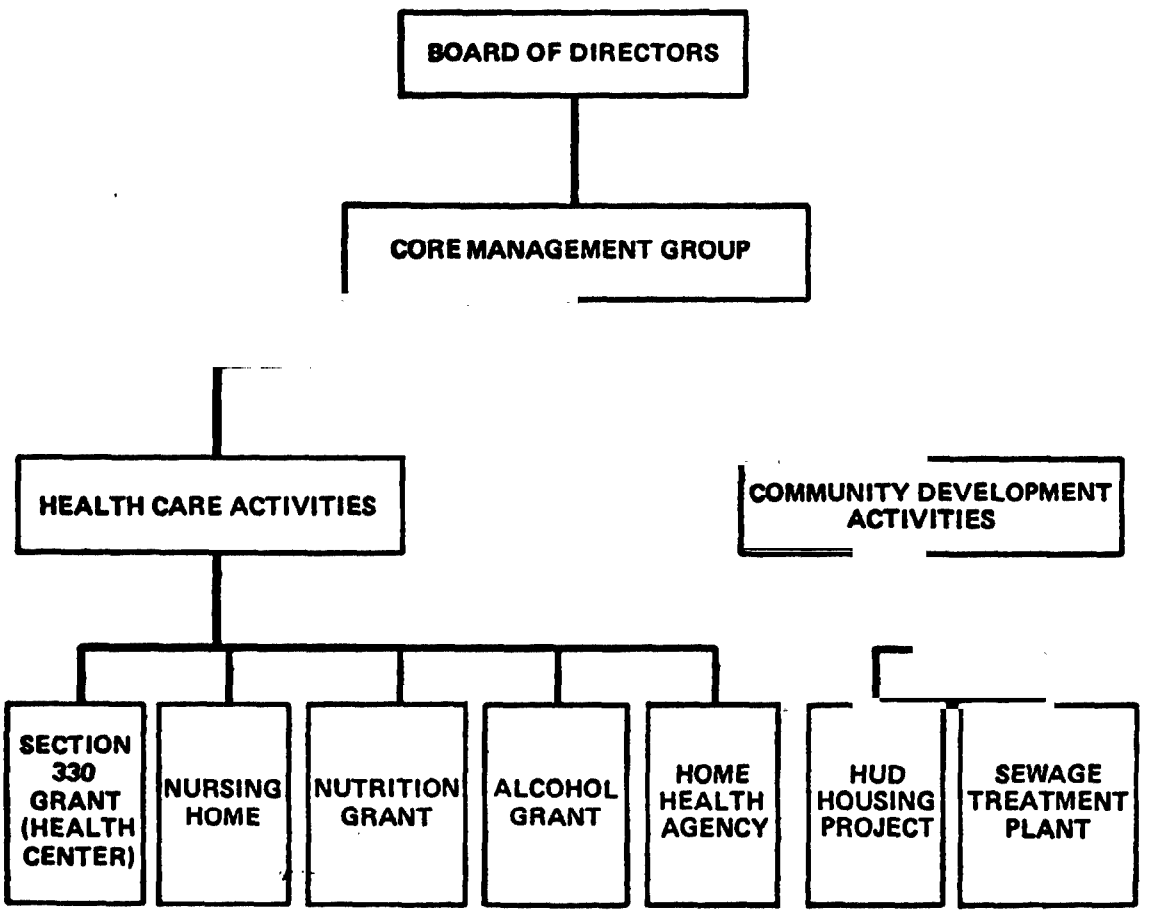
The chart on the next page shows the organizational alignment of the Sea Island activities discussed in this report.

FRANKLIN C. FETTER FAMILY HEALTH CARE CENTER

Fetter was first funded in 1967 by OEO to provide health care to low-income residents of Charleston. Economic Opportunity of Charleston (the local community action program agency) was awarded the grant, but it delegated the administration of the grant to the Medical University of South Carolina.

In 1972, when responsibility for funding Fetter was transferred to HHS, it was incorporated and a board of directors was established. This entity then became the grant recipient. Fetter's latest grant award, for the fiscal year ended March 31, 1981, was based on a total approved budget of $2,560,744, of which $2,039,292 was provided by HHS for Section 330 purposes. In March 1981, HHS granted Fetter a 6-month extension of this budget period to September 30, 1981, and an additional $977,467 in Section 330 grant funds. HHS again extended the budget period through March 31, 1982, and provided $489,722 of additional Federal grant funds.

SEA ISLAND COMPREHENSIVE HEALTH CARE CORPORATION ORGANIZATION CHART



CHAPTER 2

SEA ISLAND COMPREHENSIVE HEALTH CARE CORPORATION

Our review of Sea Island activities disclosed instances of noncompliance with grant requirements and inadequate financial management practices. Problems identified included unauthorized use of grant funds and an improperly developed indirect cost rate which resulted in overpayments to Sea Island's core management group.

UNAUTHORIZED USE OF GRANT FUNDS

Sea Island established a pattern of using Federal funds, primarily Section 330 funds, for purposes not authorized by applicable Federal regulations. The unauthorized expenditures included land acquisition, loans, contributions, and certain other expenses. These expenditures conferred substantial financial benefits on other participants in the overall Sea Island health care and housing complex.

Land acquisition

Sea Island used Section 330 funds to make a down payment on a 55-acre tract of land and apparently also used such funds to make annual interest payments.

The $28,000 down payment, made in 1977, was neither included in Sea Island's grant budget nor approved by HHS. A portion of the 55-acre tract was used by Sea Island's community development activity for construction of a water treatment plant and by the Sea Island corporation to locate its non-Section 330 health care facilities, such as the nursing home, home health, and alcohol counseling facilities. Although it was not possible to associate specific land areas with different activities, about one-third of the total acreage was developed and used to support all of the activities at the complex and two-thirds was essentially being held for future development.

Sea Island has used a questionable mechanism to make annual interest payments on the 55-acre tract of land. Interest expense was not a reimbursable cost under Sea Island's Section 330 grant. However, the land purchase agreement with the Arkay Corporation required annual interest payments of $17,446 beginning in December 1978 and continuing each year with a final payment of $211,295 in principal and interest due in December 1982. Sea Island officials increased the retainer for its attorney in January 1979 from $3,500 to $25,000 per year, and he made the interest payments to Arkay Corporation. This practice continued for 3 years, during which about $52,000 in interest payments were made through this mechanism.

According to Sea Island's attorney, he provided Sea Island health care and development corporations over 500 hours of legal services each year since 1974. He said his fees would have exceeded $25,000 per year if he had fully billed Sea Island. However, Sea Island did not maintain documentation to support the services received. For the payment due in December 1980, Sea Island's $25,000 check to the attorney was dated January 13, 1981, and was deposited by him on January 14. The attorney's payment to Arkay Corporation was also made on January 14.

Unauthorized loans and contributions to Sea Island community development activity

In 1979 and 1980, Sea Island loaned or contributed about $219,000 in Federal funds to its community development activity to defray operating expenses and help repay an outstanding bank loan. Use of Section 330 funds for these purposes was not authorized by HHS.

A similar matter had been identified by HHS grants management officials during an August 1978 visit to Sea Island. At that time, over $250,000 in unauthorized expenditures were identified. Sea Island acknowledged the unauthorized expenditures and assured HHS officials that the deficiency would be corrected and the funds loaned to the community development activity would be recovered. According to the financial statements, these funds were recovered as of December 1978. However, new loans totaling about $219,000 had been provided to the community development activity during 1979 and 1980. These loans were used to defray the operating cost of the community development activity.

Our review of the community development activity's audited financial statements for fiscal years 1979 and 1980 showed the following:

Calendar year	Loans from Sea Island
1979	$ 82,264
1980	136,617
	$218,881

Unauthorized payments of nursing home expenses

Sea Island's nursing home, which opened in August 1980, was to be a financially self-sufficient operation. During the 4 months of operation in 1980, the home incurred operating expenses of about $540,000 and generated about $158,000 in revenues, thus incurring an operating loss of about $382,000 for the year.

This loss, together with a $42,000 loss carried forward from the construction period, brought the total deficit to about $424,000 as of December 31, 1980.

Sea Island apparently used Section 330 funds to defray the operating loss. Use of these funds for this purpose was not authorized by HHS and is not an allowable use of grant funds. Sea Island was able to use Section 330 funds in this manner because payroll and other operating expenses for all health-related activities (nursing home and various grant programs) were commingled in and paid from the same bank accounts.

As of December 31, 1980, only the Section 330 grant and core management services accounts had positive balances of about $170,000 and $162,000, respectively. Although core management services obtains its revenues by assessing the nursing home and all of the grant programs, the Section 330 grant contributed $304,600, or 62 percent of the total assessed during the year.

Although account balances as of December 31, 1980, totaled about $332,000 for the Section 330 grant and the core management services, Sea Island's balance sheet as of the same date showed total cash of only $595 either on hand or in the bank accounts used to pay the payroll and operating expenses. The large account balance related to the Section 330 grant compared to the small amount of cash available suggests that Section 330 grant funds were used to defray the nursing home operating loss.

IMPROPER DEVELOPMENT OF INDIRECT COST RATE

Sea Island received excessive Section 330 funds through an improperly developed indirect cost rate. HHS defines indirect costs as those necessary to operate an organization, but not readily identifiable with a specific project or activity. The indirect cost rate is negotiated between the grantee and HHS to assure that such indirect costs are properly charged against grant funds. Sea Island's Section 330 indirect cost rate was overstated because it included

--depreciation on the health center facility, which was being paid for with Section 330 grant funds;

--depreciation on the Sea Island nursing home; and

--questionable compensation for Sea Island's president.

In addition, all of Sea Island's core management costs were allocated to the health center activity even though the Sea Island community development activity received similar administrative, managerial, and financial services.

Lack of coordination among HHS organizations responsible for monitoring grantee activities contributed to these items going undetected.

Depreciation improperly charged for health center facility

Depreciation on Sea Island's health center facility was included in determining the Section 330 indirect cost rate, even though Sea Island received an amount equal to its portion of the annual mortgage payment on the facility as a direct reimbursement through its Section 330 grant.

In some circumstances, depreciation can be included when determining an indirect cost rate. However, HHS guidelines state:

> "Computation of the use allowance and/or depreciation will exclude both the cost or any portion of the cost of grounds, buildings and equipment borne by or donated by the Federal Government, irrespective of where title was originally vested or where it presently resides * * *."

Sea Island constructed its health center and nursing home facility with a Farmers Home Administration loan. Since the health center operations are funded by the Section 330 grant, HHS agreed to include in the grant an amount equal to the health center's portion of the annual mortgage payment on the loan. The health center portion of the $157,853 annual mortgage payment was $63,743.

In 1980, Sea Island included depreciation for the 4 months the health center facility was open in determining its indirect cost rate. This resulted in about $5,500 of excess reimbursement from Section 330 funds, which equates to annual excessive reimbursement of $16,500.

Depreciation for nursing home improperly included

Sea Island also included the depreciation on its nursing home, which opened in August 1980, in developing its indirect cost rate. HHS regulations state that:

> "Costs identified specifically with other work of the institution are direct costs of that work and are not to be charged to the grant/contract either directly or indirectly."

Depreciation on the nursing home should be a direct cost of the nursing home rather than an indirect cost reimbursed to Sea Island with Section 330 funds.

Because nursing home depreciation was included in the indirect cost rate for the 4 months it was open in 1980, Sea Island received excessive reimbursement of more than $8,000 through the Section 330 grant. Were this practice to continue, more than $24,000 annually of excessive reimbursement from Section 330 funds would result through the indirect cost rate.

Questionable compensation included in indirect cost rate computation

Compensation for Sea Island's core management group was included in the indirect cost proposal as a lump-sum amount rather than being identified on a position-by-position basis. When considered separately, it was questionable whether the president's salary and fringe benefit package was reasonable.

The Sea Island president's most recent compensation package was based on an October 1981 employment contract with the Sea Island board of directors, which provided for

--an annual salary of $62,060,

--a merit increase of $1,862 (3 percent of the base salary to be set aside in a tax-sheltered account),

--a leased automobile estimated to cost $460 per month,

--gasoline for all travel except out-of-county personal trips,

--an annual expense account not to exceed $7,000, and

--a paid sabbatical leave at the completion of 7 years of continuous service.

When the president first joined Sea Island in August 1979, his annual compensation was $34,000, slightly less than the amount paid his predecessor. Based on the above employment contract, his salary alone increased over 75 percent in 2 years.

Compared to the compensation of Fetter's executive director--a comparable position at a similar size grantee in the same area--the Sea Island president's compensation appeared excessive. During 1981, the Fetter executive director was paid at an annual rate of $47,000. Also, his salary was budgeted separately as a direct cost and examined by HHS.

Core management costs not allocated to Sea Island community development activity

Because of an improper allocation of its administrative costs, Sea Island received about $24,000 in Section 330 funds for administrative support services provided to outside activities.

The core management group provided managerial, financial, data processing, and other administrative support services to the health care and community development activities. However, Sea Island officials allocated the cost of all core management support services to its health care activity for purposes of establishing its indirect cost rate.

In its 1981 indirect cost negotiation, Sea Island reported total administrative support costs of $499,784. These were the entire operating costs for the core management group. Total Sea Island health care direct expenditures were $2,593,067, which translated into an indirect cost rate of 19.2 percent. Therefore, for every $1,000 of Section 330 grant money spent, HHS would pay an additional $192 to cover administrative support costs.

Core management also provided the same administrative and financial management services to the community development activities. If Sea Island had included the community development direct expenditures in the indirect cost computation, the total expenditures would have been $2,804,269, rather than $2,593,067, and the indirect cost rate would have decreased from 19.2 to 17.8 percent. This adjustment would have reduced Sea Island's 1980 Section 330 grant receipts by about $24,000.

We were not able to establish the rationale for Sea Island's approach; however, the effect was that Sea Island received both payment from HUD for the administrative support services provided to about 80 percent of the community development activity and reimbursement for those services from the Section 330 grant through the indirect cost rate.

Lack of interaction between HHS organizations involved in developing indirect cost rates

A lack of interaction between HHS organizations involved in negotiating indirect cost rates hindered HHS personnel in identifying the improper costs included in Sea Island's indirect cost rate.

An official of the Division of Cost Allocation in HHS' Region IV, which negotiated and approved Sea Island's indirect cost rate, told us that in negotiating indirect cost rates the Division evaluates individual cost items to determine whether they are appropriately classified as direct or indirect cost, but it does not evaluate whether those individual cost items are allowable under program requirements. On the other hand, the HHS program and grants management officials responsible for grantee oversight told us that they received an approved indirect cost rate but not information on the specific items used in negotiating that rate. Under these circumstances, there is little assurance that inappropriate cost items would or could be identified.

CHAPTER 3

FRANKLIN C. FETTER FAMILY HEALTH CARE CENTER

Our review of Fetter's activities disclosed instances of noncompliance with Federal grant requirements and inadequate financial management practices. These problems included the unauthorized use of Federal grant funds and the submission of inaccurate reports.

UNAUTHORIZED USE OF GRANT FUNDS

Fetter used some grant funds for unauthorized activities without obtaining prior HHS approval. HHS' willingness to retroactively approve unauthorized expenditures fostered the continuation of this practice.

Excess obligation of grant funds for construction purposes

Between October 1978 and March 1981, Fetter incurred $382,000 in preconstruction costs for a proposed new health center facility. Of this total, about $140,000 had not been approved by HHS.

Fetter had about $187,000 from prior years' OEO grant funds set aside to be used for the future construction of a permanent health facility. In August 1979, HHS approved the OEO funds as a budget line item for use on preconstruction costs. At this time, Fetter had already incurred costs of about $32,000 for which, in effect, HHS granted retroactive approval.

In May 1980, Fetter officials requested approval to use $293,700 of Section 330 funds to complete the preconstruction effort. These funds were to be repaid to the Section 330 grant when HUD approved Fetter's loan for the construction of the permanent facility. In June 1980, HHS denied the request but said it would reconsider the matter if HUD approved the construction loan. After HHS denied the request, the preconstruction effort was discontinued during the summer of 1980.

On August 29, 1980, HUD officials notified Fetter that the high financing cost for the loan appeared to make the proposed project infeasible. However, HUD officials agreed to discuss the matter if Fetter wished to pursue it further.

In October 1980, HHS approved an additional $55,000 of Section 330 grant funds to pay for redesigning drawings of the proposed permanent facility. This brought the total available funds for the preconstruction effort to about $242,000. However, the approval of the $55,000 by HHS essentially violated the Section 330 prohibition against using grant funds to support new construction.

On October 31, 1980, officials from HUD, various HHS organizations, Fetter, and other interested parties met to discuss the Fetter project. After this meeting, the preconstruction effort was resumed although the use of additional Section 330 funds to support the effort had not been approved.

From the time the preconstruction effort was resumed until March 1981, the architect provided about $146,000 of additional services for which Fetter was liable but had not paid. While Fetter's executive director maintained that HHS headquarters officials supported and to some extent encouraged this action, he was unable to document the authorization to expend funds in excess of the $242,000.

Retroactive approval of expenditures by HHS

Fetter had spent grant funds on several occasions for non-budgeted purposes and later requested HHS to retroactively approve these expenditures.

For example, during the annual audit for the fiscal year ended March 31, 1978, Fetter's independent auditors questioned costs totaling $121,876 in Federal grant expenditures because they had not been included in Fetter's approved budget. Later Fetter requested and HHS granted retroactive approval of these expenditures for the following items:

Item	Amount
Payroll	$ 43,182
Equipment	22,738
Accounts receivable written off	37,653
Renovation and repairs	12,487
Other	5,816
Total	$121,876

Also, in 1980 Fetter spent $43,472 for several equipment items ranging in cost from $700 to $16,000. Of this total, $18,082 was either not budgeted or cost more than originally budgeted. Fetter requested and received retroactive approval for these purchases.

In addition, in March 1981 Fetter committed about $22,000 over its approved budget for a new telephone system. As of September 1981, when about $16,000 had been spent, Fetter requested retroactive approval for the entire estimated cost of the system.

Shortly after we began our audit, Fetter requested retroactive approval of $191,000 in commitments and expenditures, including the estimated cost of the telephone system.

Grant funds used to support lobbying activities

Fetter also used Section 330 grant funds to support lobbying activities. Section 407 of Public Law 95-480 (the Department of Labor and Health, Education, and Welfare Appropriations Act of 1979) provided that:

> "No part of any appropriation contained in this Act shall be used to pay the salary or expenses of any grant or contract recipient or agent acting for such recipient to engage in any activity designed to influence legislation or appropriations pending before Congress."

This restriction has been included in subsequent annual appropriation acts or made applicable to continuing resolutions containing appropriations for HHS' community health centers.

Regarding Section 407, HHS stated that:

> "This provision of the Act means that the costs associated with activities to influence legislation pending before the Congress (commonly referred to as 'lobbying') are unallowable as charges to HHS grants and contracts."

The HHS statement on lobbying activities was read into the record at a Fetter board of directors' meeting. Yet Fetter officials engaged in activities to influence pending block grant legislation in 1981. These activities included drafting letters to Congressmen protesting budget cuts and block grants; providing Fetter's board members with letters protesting block grants to be signed by them and mailed to Congressmen; using Fetter employees to help prepare these letters; and using Fetter supplies (paper, envelopes, stamps) for preparing and sending the letters. We were not able to determine the costs associated with these activities.

SUBMISSION OF INACCURATE REPORTS

Fetter submitted to HHS several inaccurate reports, one of which enabled Fetter to receive additional funding.

Inaccurate financial status reports submitted

Fetter filed an inaccurate financial status report for 1980, which enabled it to retain funds that should have been carried forward to reduce the subsequent year's grant award. These inaccuracies were not detected by HHS regional office personnel.

Fetter's grant agreement required that revenues generated by patient and third-party receipts be budgeted and used in the same manner as grant funds and that all unexpended grant funds and program-generated income be reported to HHS. It was permitted to retain 50 percent of the program-generated income to further the program's purposes.

Fetter officials believed that all Federal grant funds were to be used to cover operating expenses before any program-generated income was to be used. Fetter's financial status report for 1980 reported that all Federal funds had been spent. As shown below, we compared the expended funds reported to HHS with what Fetter's 1980 unexpended balance would have been if it had been computed in accordance with applicable HHS guidelines.

Computation of Unexpended Funds
Using HHS Guidelines

	Federal	Non-Federal	Total
Receipts	$2,248,860	$816,401	$3,065,261
Disbursements	2,077,304	573,132	2,650,436
Unexpended balance	$ 171,556	$243,269	

Computation of Unexpended Funds
Using Fetter Approach

	Federal	Non-Federal	Total
Receipts	$2,248,860	$816,401	$3,065,261
Disbursements	2,248,860	401,576	2,650,436
Unexpended balance	0	$414,825	

If Fetter had computed the unexpended balance using HHS guidelines, 1981 grant should have been reduced by $293,190 ($171,556 plus 1/2 of $243,269). Under Fetter's approach, the 1981 grant should have been reduced by $207,412 (1/2 of $414,825). However, HHS officials did not make any adjustment to Fetter's 1981 grant

award, and Fetter retained the entire $414,825. Analysis of data in Fetter's financial status report, the final approved grantee budget, and the audited financial statements disclosed this situation.

Administrative costs appeared understated

Fetter submitted an administrative cost report for 1980 which showed a rate of 16.7 percent--slightly over the 16-percent standard imposed by HHS. 1/ Independent reviews of cost data by HHS' Health Care Financing Administration indicated that Fetter's 16.7-percent reported administrative cost rate for its Section 330 grant was understated. Fetter claimed about 23 percent when establishing its Medicare reimbursement rate for 1981. A similar situation existed in the 1980 data, which showed a Section 330 reported rate of 14 percent and a claimed Medicare rate of 21 percent. Although for both years there was a 3-month difference in the time periods used as a basis for computing Medicare and Section 330 rates, that difference would not, in our opinion, explain the large variances.

1/When administrative costs exceed 16 percent, subsequent grants are reduced using an HHS formula.