United States General Accounting Office

GAO

Report to the Honorable
Bill Green, House of Representatives

August 1990

HEALTH CARE

Public Health Service Funding of Community Health Centers in New York City

GAO/HRD-90-121

GAO

United States
General Accounting Office
Washington, D.C. 20548

New York Regional Office

B-240069

August 7, 1990

The Honorable Bill Green
House of Representatives

Dear Mr. Green:

In your letter of September 6, 1989, and in subsequent discussions, you asked for information on four selected community health centers in New York City receiving grants from the Public Health Service (PHS), an agency of the U.S. Department of Health and Human Services (HHS). The centers were: Montefiore Hospital and Medical Center/Ambulatory Care Network, Bronx-Lebanon Hospital Center/Ambulatory Care Network, Lutheran Medical Center/Sunset Park Family Health Center, and St. Mary's Hospital/Family Health Care Network. You expressed specific concern about whether PHS had consistently required centers, particularly these four, to have community governing boards in order to receive funding under section 330 of the Public Health Service Act. You also inquired about whether the share of section 330 funds that PHS awarded to grantees in New York State was declining.

On February 21, 1990, we briefed you and your staff on our preliminary observations. This report discusses our final results.

Background

Section 330 of the Public Health Service Act, as amended, provides funds to support the operation of community health centers that provide primary health services to medically underserved populations, regardless of their ability to pay. A categorical grant program, section 330 is administered by the Bureau of Health Care Delivery and Assistance, under PHS's Health Resources and Services Administration. Grants are awarded to centers in designated urban and rural medically underserved areas (MUAs).[1] In fiscal year 1989, the Bureau made 539 grant awards nationwide, totaling about $422 million.

During the 1980s, increases in section 330 funding lagged the rise in medical care costs. From 1980 through 1989, section 330 funding increased 31.3 percent while medical care costs increased 106 percent.[2]

[1]MUAs are designated by the Secretary of HHS on the basis of an area's available health resources, the health characteristics of its population, and economic and demographic factors affecting health care in the area.

[2]Figures for section 330 funding are on a federal fiscal year basis; the cost of medical care, as measured by the Bureau of Labor Statistics, is available only on a calendar year basis.

Governance Requirements Consistently Applied

When the Bureau determined, in August 1985, that the governing boards of the four centers did not meet federal requirements and provided each the opportunity to comply, three of the grantees took actions to respond to problems pointed out by the Bureau. This allowed them to continue receiving section 330 funds. The fourth was unwilling to make the necessary changes and did not apply for continuation of its grant.

Regulations (42 CFR 51c.304) implementing section 330 of the Public Health Service Act include the following stipulations:

1. Each center must have a governing board of between 9 and 25 members,

2. The majority of board members must be demographically representative of the population served by the center, and

3. No board member may be a grantee employee, although the center director may be a nonvoting, ex officio member.

The regulations also stipulate that the board establish center operating policy.

The four community health centers were grant coapplicants with the parent hospitals, which were the official grantees. Although each center had a governing board, the boards did not have complete authority for establishing center operating policies as required by regulations. These boards, for example, could not appoint a center director without hospital approval. The Bureau of Health Care Delivery and Assistance decided that such arrangements did not meet the intent of section 330. In August 1985, the Bureau notified these four grantees to make the changes necessary to ensure true governance by the governing board. Their responses (summarized in table 1) were as follows.

that gave the Family Health Center governing board more direct authority and responsibility. However, plans for the Family Health Center to become the grantee were not realized. The Medical Center remained the grantee because of various issues, including the cost of malpractice insurance. PHS Region II officials, by reviewing minutes of the governing board meetings, determined that the board complied with regulations.

- St. Mary's, another community health center grantee in Brooklyn, was unwilling to comply with the governing board requirements and did not reapply for section 330 funding. The Family Health Care Network was not a separate corporate entity; it was accountable to the hospital's board of directors. According to the Family Health Care Network director, St. Mary's wanted more authority and input in center matters than the Bureau or the regulations could allow. St. Mary's approach was a result of previous negative experiences with community governance of one of its clinics. In particular, St. Mary's wanted hospital employees on the community governing board, which constitutes a violation of federal regulations. The Bureau allowed St. Mary's nearly 2 years to develop an acceptable arrangement. Because an acceptable arrangement could not be developed, St. Mary's grant was discontinued in July 1987. According to the Family Health Care Network director, the amount of funding was an issue. The hospital believed that the potential funding was inadequate compared with the costs of establishing a separate organization.

Although the Bureau acted consistently in these four cases, we noted two problems:

1. Its 1985 decision to enforce governing board requirements more strictly was neither well articulated nor well understood in PHS Region II. PHS staff and grantees initially misunderstood the policy and its basis, although the policy became better understood over time. However, Region II's initial lack of explanation resulted in confusion and animosity among grantee and PHS officials.

2. Official grant files for the four grantees we reviewed were missing critical documents related to the reasons for noncompliance, actions needed to come into compliance, and the adequacy of proposed corrective action.

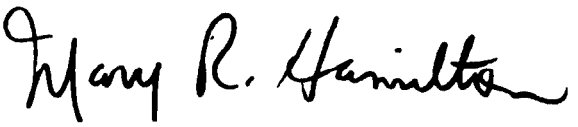
New York's Share of Funding Declined

During the 1980s, the aggregate amount of section 330 funds awarded to grantees in New York State remained fairly stable, while national appropriations increased by about one-third. Awards to grantees in New York,

significant revenues to community health centers. In effect, this reduces a center's need for grant assistance.

As agreed with your office, unless you publicly announce the contents of this report earlier, we plan no further distribution of it until 14 days from the date of the report. At that time, we will send copies of the report to the Secretary of Health and Human Services, the Director of the Office of Management and Budget, and other interested parties. Please contact me at (212) 264-0730 if you or your staff have any questions concerning the report. Other major contributors are listed in appendix I.

Sincerely yours,



Mary R. Hamilton
Regional Manager

Because of the decline in the real value of program funds, the Bureau decided to continue funding only grantees that were (1) well managed, (2) in geographic areas with demonstrated need and demand for primary care services, and (3) able to demonstrate financial need. In addition, PHS decided to enforce community governing board requirements more strictly.

Methodology

Our review was conducted at PHS offices in Rockville, Maryland, and New York City (Region II). We reviewed PHS funding policies, guidance, and procedures regarding decisions to provide section 330 funding to grant applicants. We examined the PHS grants files for the four grantees your office brought to our attention to determine whether PHS practices in making funding decisions regarding them were consistent. To review section 330 funding trends, we analyzed national grant award data from 1980 through 1989. We interviewed current and former PHS, community health center, New York City Health and Hospitals Corporation, and New York State Health Department officials regarding funding decisions and funding trends.

We discussed a copy of a draft of this report with PHS officials and considered their comments in preparing the report. Our work was performed between November 1989 and March 1990 in accordance with generally accepted government auditing standards.

Results in Brief

PHS determined that none of the four community health centers had governing boards that complied with federal regulations for the section 330 program. In each case, PHS gave the center an opportunity to meet these requirements. Three of the four grantees subsequently complied with the regulations; the fourth decided to make no changes and did not apply for a continuation grant.

Section 330 funds provided to community health centers in New York remained fairly stable from 1980 to 1989, while national appropriations increased by about one-third. As a result, the share of funds going to New York declined from 11.3 to 8.6 percent.

Table 1: Responses by Community Health Center Grantees to PHS Notification That Governing Board Requirements Were Not Met (1985)

Grantee/ center	Grantee response	Final funding status
Montefiore Hospital and Medical Center/ Ambulatory Care Network	Established separate organization—Bronx Ambulatory Care Network	Retained funding
Bronx-Lebanon Hospital Center/ Ambulatory Care Network	Joined Bronx Ambulatory Care Network	Retained funding
Lutheran Medical Center/Sunset Park Family Health Center	Family Health Center incorporated as a not-for-profit organization and provided governing board more authority	Retained funding
St. Mary's Hospital/ Family Health Care Network	Chose not to establish independently governed center	Did not apply for continued funding

The Montefiore and Bronx-Lebanon Networks became part of a new, independent umbrella organization, the Bronx Ambulatory Care Network (BACN). This was a not-for-profit corporation with a governing board in compliance with section 330 requirements:

- Montefiore Hospital and Medical Center in the Bronx was the grantee for the Montefiore Ambulatory Care Network. The Bureau had determined that Montefiore Network actually was not governing the network's several center sites because each site had a controlling board. To comply, Montefiore Hospital established BACN, which in January 1988 became the grantee for Montefiore's several sites.
- Bronx-Lebanon Hospital Center was the coapplicant with and grantee for the Bronx-Lebanon Ambulatory Care Network. The Bureau had cited persistent clinical and financial management deficiencies, in addition to noncompliance with community governing board regulations, at the Ambulatory Care Network. After sometimes bitter negotiations, the Bureau decided to terminate section 330 funding effective June 1, 1986. The Bureau, however, extended funding under a plan whereby the Bronx-Lebanon Ambulatory Care Network corrected deficiencies and became part of BACN in January 1988.

The Bureau's governing board requirement also affected the two other grantees we reviewed, Lutheran Medical Center/Sunset Park Family Health Center and St. Mary's Hospital/Family Health Care Network. However, only Lutheran/Sunset Park was willing to make the changes necessary to retain section 330 funding:

- The Lutheran/Sunset Park Center responded to the Bureau's August 1985 notification by incorporating as a 501(c)(3) not-for-profit organization and by revising a letter of understanding with the Medical Center

which totaled $36.4 million in fiscal year 1980, were virtually unchanged in fiscal year 1989, when they totaled $36.5 million. Nationally, section 330 funding increased about 31 percent from $321.2 million in fiscal year 1980 to $421.9 million in fiscal year 1989. As a result, the share of national section 330 funds awarded to grantees in New York declined from 11.3 to 8.6 percent. This decline resulted partly from PHS's decision to discontinue funding some grantees.

While the funding to grantees in New York remained stable, the number of grantees declined; consequently, the average grant award increased by 64 percent from about $674,000 to $1.1 million. The number of grantees in New York declined by 21 during the 1980s, according to data provided by the Bureau; there were 54 grantees in fiscal year 1980 and 33 in fiscal year 1989. Because of new grant awards made during the 1980s, the actual number of terminations exceeded 21. To analyze why the number of grantees in New York declined, we asked PHS Region II officials to identify grants that were terminated during 1980-89. The officials, however, could not fully account for the grants terminated during this 10-year period.

PHS Region II officials did identify 16 grantees[3] in New York State that were terminated during the 1980s. The reason for termination was either (1) poor fiscal and/or clinical management, (2) failure to comply with governing board requirements, or (3) a statutory 5-percent national limit on the amount of section 330 funds that could be awarded to public centers.[4] In their final fiscal years of operations, these 16 grantees had been awarded $8.8 million, an amount equivalent to about 26 percent of the average annual section 330 funding awards to grantees in New York State during the 1980s.

Other factors also affected the amount of section 330 funds awarded. In 1985, the Bureau directed grantees to project their funding needs from a zero base, rather than from the prior year's level. As a result, Bureau officials told us, a number of grantees in New York were unable to demonstrate as much need for section 330 funding. In addition, New York State officials and one grantee official told us that New York's relatively generous Medicaid reimbursement payment schedule provides

[3]Does not include Montefiore Hospital and Medical Center and the Bronx-Lebanon Hospital Center, both of which continue to operate as components of BACN.

[4]Section 330 limits grants to public centers with governing boards that do not establish policies for such centers to 5 percent of funds appropriated in a fiscal year.

Major Contributors to This Report

Human Resources Division, Washington, D.C.	Janet Shikles, Director, Health Financing and Policy Issues, (202) 275-5451 Mark V. Nadel, Associate Director, National and Public Health Issues
New York Regional Office	Robin Jo Winn, Assistant Regional Manager Anthony P. Lofaro, Evaluator-in-Charge Peter E. Plumeau, Site Senior Brian C. Matthews, Evaluator Sarita Valentin, Evaluator

Requests for copies of GAO reports should be sent to:

U.S. General Accounting Office
Post Office Box 6015
Gaithersburg, Maryland 20877

Telephone 202-275-6241

The first five copies of each report are free. Additional copies are $2.00 each.

There is a 25% discount on orders for 100 or more copies mailed to a single address.

Orders must be prepaid by cash or by check or money order made out to the Superintendent of Documents.

United States
General Accounting Office
Washington, D.C. 20548

Official Business
Penalty for Private Use $300

First-Class Mail
Postage & Fees Paid
GAO
Permit No. G100