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Report to Congressional Requesters

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COMMUNITY HEALTH CENTERS

Administration of Grant Awards Needs Strengthening

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Human Resources Division

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The Honorable Daniel K. Inouye
United States Senate

The Honorable Quentin N. Burdick
United States Senate

This report responds to your request and later discussions with your staffs regarding the management of the Community and Migrant Health Centers program by the Bureau of Health Care Delivery and Assistance. The report contains a recommendation to the Secretary of Health and Human Services to improve the Bureau's grant award process.

Unless you release its contents earlier, we plan no further distribution of this report until 10 days from its issue date. At that time, we will send copies of this report to interested congressional committees, the Secretary of Health and Human Services, and the national associations we reviewed. We also will make copies available to others on request. Please contact me on (202) 512-7118 if you or your staffs have any questions concerning the report. Other major contributors are listed in appendix I.

Mark V. Nadel
Associate Director, National
and Public Health Issues

Executive Summary

Purpose

The Community and Migrant Health Center program provides access to adequate health care for people who would otherwise be without it. In fiscal year 1991, the Congress appropriated $530 million to this program to support about 550 health center grantees.

Concerned over how funds were being used, Senators Daniel K. Inouye and Quentin N. Burdick asked GAO to assess the Bureau of Health Care Delivery and Assistance's (BHCDA) policies and procedures for awarding grants and determining award amounts. The senators also asked GAO to examine the award process for grants to national associations and determine whether grantees may use grant funds to pay for dues to these organizations.

Background

BHCDA administers the health center program. BHCDA is part of the Health Resources and Services Administration within the Department of Health and Human Services' (HHS) Public Health Service (PHS). Thus, in awarding grants, BHCDA must comply with HHS and PHS grants administration requirements.

To protect against waste, wrongful acts, and bias in awarding grants, PHS requires competition and objective, independent reviews of grant applications. Competition helps to ensure that all qualified organizations have an equal opportunity to be considered and that the most appropriate awards are made considering cost and other factors. Independent reviews by persons not familiar with the applicant provide an internal control for assuring that grant awards are not controlled by individuals who have direct working ties with an applicant that may bias their decisions.

To be consistent with the budgetary process and HHS policy, PHS requires that grants be funded for a 1-year period. By law, grants also must not be more than the amount by which a grantee's costs exceed its revenues. Grantees also must make every effort to increase their revenues.

Grantees receive technical and other assistance from national associations that are funded by BHCDA through grants awarded directly to associations and dues paid by grantees. Grantees are allowed to use federal grant funds to pay for membership dues.

Results in Brief

In awarding grants for health centers and to national associations, BHCDA has deviated from legislative and agency grant requirements concerning competitive awards, funding levels, and application reviews. Specifically, GAO found:

- BHCDA has not awarded grants competitively, which is contrary to PHS policy. Instead, it has restricted grant awards to existing health center grantees and has not always competitively awarded grants to national associations.
- BHCDA does not fund grant awards based on the difference between costs and revenues, as required by law. As a result, grants may be greater than the law permits.
- BHCDA has continually awarded a large number of grants for less than the standard 12 months and has not disclosed this practice to HHS or the Congress. Thus, annual program cost information BHCDA has provided to HHS and the Congress has been understated for any given year.
- BHCDA's grant review process does not allow the final decisionmaker to adequately consider independent reviews that PHS requires to protect against bias in the award process.
- By providing additional funds to a national association indirectly through grantees' dues to compensate for a reduction in the association's grant, BHCDA reduced its control over how these funds are used. For example, restrictions applicable to the use of grant funds, such as the prohibition against using federal funds to lobby, are not explicitly applicable to funds received indirectly through dues.

GAO's Analysis

Grants Not Awarded Competitively

Since fiscal year 1989, BHCDA has awarded grants without competition for health centers and to certain national associations without approval to do so. Consequently, the same health center grantees and certain associations continue to receive grants. In response to a GAO letter questioning BHCDA's grant award practice, PHS agreed that competition should be promoted but noted it is difficult to achieve because nurturing a center and developing an infrastructure to support service delivery may take years. Therefore, BHCDA plans to propose changing HHS's grant administration requirement to allow as a standard practice noncompetitive awards to existing grantees. BHCDA said that if its proposed change is not feasible it will seek approval from PHS for noncompetitive awards.

Base-Plus Funding Is Inconsistent With PHS Act

To set the amount of a grant, BHCDA starts with a grantee's previous year's award and adds to it a cost-of-living type increase provided that the grantee's performance was satisfactory. Because this funding method is not based on the difference between cost and revenues as required by law, grant awards may be greater than what is legally allowed. Recent increases in Medicaid and Medicare reimbursement rates to centers could substantially increase a grantee's revenues. But, under BHCDA's funding methodology, these revenues, contrary to the law, would not be considered in setting grant amounts.

Internal Control Compromised

BHCDA's grant award process allows program officials whom PHS considers to have a potential bias to present final award recommendations to the BHCDA Director in a way that limits the Director's consideration of the views of independent reviewers in making decisions. The result is to reduce the effectiveness of the independent review function as an internal control against bias in grant awards.

Program Costs Understated

Although PHS's policy requires grants to be funded for a full year, BHCDA has awarded many grants for shorter periods. As a result of its failure to disclose its widespread practice of funding grants for periods of less than 12 months, BHCDA understates to the Department and the Congress the annual cost of the program. In fiscal year 1989, instead of providing enough money to fund the existing 551 health center grants for 1 year each, totaling 551 grant years, the appropriation provided only 497 grant years of support. Grant awards in fiscal years 1990 and 1991 were similar.

Controls Over How Funds Are Spent Eliminated

In 1987, BHCDA entered into a special funding arrangement with the National Association of Community Health Centers (NACHC) to increase funds to NACHC through member grantee dues. This was to offset a decrease in BHCDA's direct grant to NACHC. Providing federal funds to this association through dues rather than a grant reduces BHCDA's control over the use of these funds. For example, restrictions against the use of federal funds for lobbying and other purposes are not explicitly applicable to federal funds received through membership dues. By providing funds to NACHC through grantee dues, BHCDA is subsidizing activities that would have been explicitly prohibited had NACHC received the funds through its grant.

Recommendation

GAO recommends that the Secretary of HHS direct the Assistant Secretary for Health to take steps to make sure that BHCDA fully complies with all laws, policies, and regulations regarding grant awards.

Agency Comments

In accordance with the requesters' wishes, GAO did not obtain written comments from HHS on this report. However, GAO discussed the report's contents with the BHCDA Director and other BHCDA officials and incorporated their views where appropriate.

The BHCDA Director generally agreed that improvements are needed in the administration of grant awards. She said that certain actions to make such improvements have already been initiated and other actions are under consideration. The Director also said BHCDA is testing a new methodology for establishing funding levels that is based on the difference between project costs and revenues.

In addition, she indicated that BHCDA intends to take action to deal with the issues regarding noncompetitive grant awards, failure to disclose the effects of grants awarded for less than 1 year, the independent review process, and grants to national associations.

Contents

Abbreviations

BHCDA	Bureau of Health Care Delivery and Assistance
PHS	Public Health Service
HHS	Department of Health and Human Services
HRSA	Health Resources and Services Administration
NACHC	National Association of Community Health Centers
NMRP	National Migrant Resource Program, Inc.
NRHA	National Rural Health Association

Introduction

Authorized by sections 329 and 330 of the Public Health Service Act, the Community and Migrant Health Center program, hereinafter referred to as the health center program, has been the federal government's primary means of providing health services to medically underserved areas and populations for the past 25 years. In fiscal year 1991, the health center program was appropriated $530 million and served approximately 6 million people. On average, the Bureau of Health Care Delivery and Assistance (BHCDA) provides about 40 percent of the dollars expended by center grantees. The remaining 60 percent comes from such sources as Medicare and Medicaid reimbursements for services, state governments, donations from foundations, and fees for services.

BHCDA, which is part of the Health Resources and Services Administration (HRSA) within the Department of Health and Human Services' (HHS) Public Health Service (PHS), is responsible for administering the health center program. PHS has 10 regional offices that assist BHCDA in managing the program. About 550 health centers provide primary health services, such as physician services, diagnostic laboratory and radiology services, preventive health services, emergency medical services, and preventive dental care. In addition, center grantees, at their discretion, may provide supplemental health services, such as hospital services, home health services, mental health services, and ambulatory surgical services to support the primary health services.

In addition to providing funds for the required primary health care services, BHCDA also may provide funds to health center grantees for additional supplemental services, special initiatives, service expansions, and capital improvements. Other program costs include grants and contracts for such things as technical assistance and program evaluation.

In May 1990, Senators Daniel K. Inouye and Quentin N. Burdick asked us to examine certain aspects of BHCDA's administration of the health center program. Specifically, they asked us to (1) examine BHCDA's process for awarding grants to health center grantees, (2) assess BHCDA's method of determining the funding level of the grants, (3) examine how BHCDA awards technical assistance grants to national associations, and (4) determine whether health center grantees can use grant funds to pay for membership dues to national associations.

Grant Review and Award Process

Before fiscal year 1989, PHS's regional offices had responsibility for awarding grants for health centers. The Congress, however, reacted to concerns that regional offices were inconsistently interpreting policies, reducing funding without adequate explanation, and delaying grant awards for several weeks or months by requiring that final decisions on grant awards be centralized. The Congress hoped that centralization would result in a consistent and even-handed implementation of policy and priorities across the regions.

In fiscal year 1989, the grant award process was centralized within BHCDA. Standard application packages, policies, review criteria, and timeframes were developed for grant reviews and awards. BHCDA also instituted procedures that were intended to bring about consistent interpretations of grant policy.

The grant review process starts each year with BHCDA notifying prospective applicants of the availability of grant funds and providing them information on the grant award process. This notice is provided through program announcements in the Federal Register. PHS policy requires that the announcement be published in sufficient time for applicants to apply. They must submit their applications to the responsible regional office 120 days before the budget start date. The submission of an application begins the grant review cycle.

Most grants are approved for 3-year project periods and funded in annual increments. During a project period, grantees apply for each year's funding using a scaled-down version of a grant application. At the end of the project period, PHS requires grantees to apply to renew their grant. To help ensure that waste and wrongful practices in the grant award process do not occur, PHS's grants policy requires that renewal grants be awarded competitively and applications be reviewed by independent, qualified reviewers.

Renewal applications and applications for annual funding increments are reviewed by the regional office's program, clinical, and grants management staff. The results of their reviews are combined in a report that contains recommendations concerning approval or disapproval of the application, funding level, project period (if applicable), and any grant award conditions. For renewal grants, the report also is to include a detailed discussion of the applicant's performance with regard to meeting program requirements. When an application review is completed, reviewers are to assign the applicant a letter grade—A, B, C, D, or F, with A being the

highest. The letter grade is used as an overall rating based on the applicant's level of compliance with statutory, regulatory, and program requirements. The letter grade provides a basis for decisions on such matters as length of project period and funding levels.

An independent review committee consisting of staff from other regional offices also reviews renewal applications. The review criteria used by the independent review committee is similar to that of the regional office. The independent reviewers also make recommendations in the same areas as the regional office.

The results of the regional staff and independent committee reviews are provided to staff in the Division of Primary Care Services within BHCDA. The Division staff reconcile any differences between the two review recommendations and make the final recommendations to the BHCDA Director on approval or disapproval, letter grade, funding level, project period, and grant award conditions. The BHCDA Director decides whether an application is approved.

Funding Grants

Before the grant process was centralized in BHCDA, the regional offices determined the grant award amounts through a zero-based budget process whereby past and projected grantee costs were analyzed to determine funding. The process was not standard throughout the regions as each region had developed its own concept of zero-based budgeting. After centralization in 1989, BHCDA adopted a funding methodology it called base-plus funding. The base is the amount a grantee received the previous year less any one-time funding amounts. The plus part of base-plus funding includes any newly approved funding. Such funding could be for a current cost-of-living type increase that would then become part of the next year's base, or any service improvements or capital expenditures that may or may not be recurring, or both. BHCDA also provides additional funding to grantees for special initiatives. For example, some grantees also receive funds to expand certain services in an effort to reduce infant mortality in that area.

National Associations

A number of national associations support the mission of BHCDA. In turn, BHCDA provides funding to these associations directly through grants, usually for technical assistance, and indirectly through reimbursement of dues that health center grantees pay to the associations. Most health center grantees are members of the National Association of Community Health Centers (NACHC), which serves as the principle advocate to the Congress on the grantees' behalf. Other membership organizations representing health center interests include the National Rural Health Association (NRHA) and state primary care associations.

These associations assist the center grantees by conducting seminars, workshops, and conventions that cover such matters as legislative initiatives and methods to improve the quality of and access to health care. They also publish manuals, research reports, and newsletters on subjects such as improving services and enhancing revenues. The associations also develop statistics on demographics and other pertinent topics. Associations are active in federal government affairs through testifying to the Congress, assisting congressional staffs, and lobbying the Congress. Associations, however, are prohibited from using federal grant funds to lobby Congress to influence legislation.

Grants to national associations are administered by BHCDA's central office and are not reviewed by PHS regional office staff. The grant review and award process is similar to that used for grants for health centers in that renewal applications are reviewed by an independent review committee. In addition, as of February 4, 1991, grants to national associations must be concurred in by the Administrator, HRSA, before award. New and renewal grants must be awarded competitively and applications reviewed by independent reviewers. During the project period, applications for funding are reviewed by technical review committees within BHCDA.

Scope and Methodology

Because of major changes to the health center program grant review process and funding, we limited our work to fiscal years 1989-91, the period following centralization. For national associations we covered a 5-year period ending with fiscal year 1991. To accomplish our objectives we reviewed HHS, PHS, and BHCDA documents, such as grant manuals, instructions and guidance to grant reviewers, program expectations, memoranda, grant files, and reports by others who reviewed aspects of the health center program. We also interviewed HHS, PHS, and BHCDA officials to obtain information and views on the grant review and award process,

methods used to determine funding amounts, and relationships with national associations.

In addition, we visited three PHS regional offices. At these offices, we reviewed grant files, memoranda, and other documents relating to grant reviews, the award process and funding determinations. We discussed with regional office officials these subjects as well as matters relating to the regional office workloads and relationships between national associations and regional office personnel. We also met with several grantees and discussed the matters under consideration with them.

Further, we examined the review and award process for grants to national associations in general, and looked at how the process was specifically applied to grants awarded to three national associations—NACHC, NRHA, and the National Migrant Resource Program, Inc. (NMRP).[1] We also looked at BHCDA's policies and practices for reimbursing grantees for the cost of membership dues to national associations.

Our work was performed between October 1990 and June 1991 in accordance with generally accepted government auditing standards. However, in accordance with the requesters' wishes, we did not obtain written comments from HHS on this report. But we did discuss the report's contents with BHCDA officials and incorporated their views where appropriate.

[1]The National Migrant Resource Program, Inc., operates a national information service that links organizations to migrant and seasonal workers. It also serves as a repository of health-related information and materials for use by migrant health centers, providers, patients, and other constituents.

Grant Awards Not in Compliance With Requirements

In awarding grants for health centers and to national associations, BHCDA has not complied with legislative, policy, and procedural requirements that are intended to help ensure that awards are made fairly. Specifically, we found that BHCDA (1) did not award grants competitively as PHS's grant management policy requires; (2) did not set grant amounts in accordance with legal criteria; (3) often funded grants for less than 1 year, contrary to PHS policy; and (4) established a grant award process that lacks adequate internal controls.

BHCDA, over the past several years, has funded primarily existing grantees and has excluded new organizations from competing for these grants, thus raising questions about the fairness of its management of the grant award process. Although by law grant amounts to center grantees must not be greater than the amount by which a grantee's operating costs exceed its revenues, BHCDA has increased grants to most center grantees each year without the required consideration of costs and revenues. BHCDA's practice of funding grants for less than a full year results in the cost of the program in any given year being understated. Consequently, HHS and the Congress do not have an accurate picture of the annual costs of supporting the health center program. Internal controls over BHCDA's grant award process do not ensure that independent reviewers' recommendations are adequately considered in making final award decisions.

Grants Awarded Without Competition

Despite departmental requirements, since fiscal year 1989, BHCDA has awarded virtually all health center and national association grants without competition. As a result, for the past several years the same organizations have received grants from BHCDA. When competition is restricted, the government may lose opportunities not only to lower costs but to improve services and service delivery.

The Department of Health and Human Services' Grants Administration Manual requires "maximum open and free competition for discretionary grants." The PHS grants manual, which implements department requirements, states that "prior to requesting applications for grant(s) . . . with less than maximum competition, the justification for such action must be approved" by PHS. PHS also requires that prospective grant applicants be notified through the Federal Register of the availability of funds for grants in sufficient time for them to apply.

BHCDA has not complied with the PHS requirements for full and open competition for health center grants awarded in fiscal years 1989 through

1991. BHCDA also did not provide timely notification to parties other than existing grantees regarding submission of grant applications.

In its Federal Register program announcements for fiscal years 1989 through 1991 BHCDA limited eligibility for grant awards to existing center grantees.[1] BHCDA did not seek, nor was it granted, authority to deviate from the requirement for awarding grants competitively. For example, in fiscal year 1990, BHCDA awarded 207 renewal grants without competition to existing grantee organizations whose grants had expired. Similarly, BHCDA renewed grants to some national associations in each of those years without competition or approval to do so.

Moreover, in each of the fiscal years 1989 through 1991, BHCDA's Federal Register program announcements notifying potential applicants of funds available for community and migrant health center grants was issued late in the fiscal year. In fiscal year 1989, the announcement was issued on February 6, 1989, 4 months into the fiscal year; in fiscal year 1990, it was issued on May 22, 1990, almost 8 months after the fiscal year began; and in fiscal year 1991, it was issued on April 16, 1991, 6-1/2 months into the fiscal year. Many health center grants in fiscal year 1989 and most in fiscal years 1990 and 1991 were awarded before the announcements were issued.

In a March 8, 1991, letter to the HRSA Administrator, we questioned the lack of competition in BHCDA's grant award process. The Deputy Assistant Secretary for Health Management Operations, PHS, responded to our inquiry noting that competition was difficult to achieve under certain circumstances and that it was not always in the best interest of either the patient or the public. For example, turnover among primary care providers may increase the likelihood of poor health outcomes among populations already at high risk or may be costly given start-up costs of new centers. Nevertheless, the Deputy Assistant Secretary agreed that competition should be promoted and the manner in which competition could best be accomplished in the health center program needed to be clarified. He also noted that PHS intended to take every possible action to expedite the review of program announcements for grant awards to ensure that they are

[1]During fiscal year 1991, BHCDA issued two funding announcements. BHCDA's first announcement on April 16, 1991, representing 99 percent of the available funding for health center grants, limited eligibility to currently funded health centers. On June 4, 1991, BHCDA issued a second notice announcing the availability of approximately $4.5 million for the purpose of establishing new centers or expanding the capacity of existing centers. Existing grantees as well as new applicants could compete for the $4.5 million.

published at a meaningful time in advance of funding. However, as of December 3, 1991, BHCDA had not issued its Federal Register program announcement for fiscal year 1992 and had already awarded some grants.

In commenting on a draft of this report, the BHCDA Director said she does not believe that competitive grant awards to existing health center grantees are appropriate and that BHCDA will seek approval for noncompetitive awards to those centers. The Director noted that on many occasions BHCDA has argued that service delivery programs are substantially different from programs that are primarily research, training, or demonstration in nature. Because substantial technical and other assistance are involved in developing a health center that meets program expectations, BHCDA believes that affording preference to existing grantees is a well-reasoned alternative to the argument for full and open competition. For these reasons, BHCDA would like to see a service delivery chapter added to the grants manual that would allow noncompetitive awards to existing health center grantees. If such a chapter is not feasible, BHCDA agrees that it should seek approval from PHS for less than full and open competition. Obtaining prior approval for noncompetitive awards through a revision to the agency's grant manual or through a specific request would, in our view, be consistent with PHS requirements for such awards.

Regarding the timeliness of program announcements, BHCDA's Director said that BHCDA is aware of the concern with the timeliness of the announcements and has drafted a standing program announcement that would be the basis of notification to existing grantees applying for continued funding of an existing center. However, she said that because in many fiscal years BHCDA does not know the level of its appropriation until after the fiscal year has begun it cannot develop a final funding plan or write a funding availability notice with any specificity. Therefore, a second program announcement would be issued after BHCDA received its final appropriation and would address the actual dollars available. The director said that in years when the appropriation is sufficient to support new starts, a third announcement will describe the competitive review cycle. These actions, if implemented, should help improve the timeliness of announcements notifying prospective grant applicants of the availability of funds for grants.

Grant Amounts Are Not Determined in Accordance With the Law

BHCDA has not complied with the PHS act, which requires that health center grants not be more than the amount by which a grantee's operating costs exceed its revenues.[2] BHCDA instead determines the amount of a grant using a method referred to as base-plus funding. This method generally bases the grant amount on the previous year's level of support (referred to as the base amount), plus a cost-of-living type increase (referred to as a yearly incremental increase). The actual grant award is adjusted (up or down) based on an assessment of the grantee's performance and its proposed activities. While cost and revenue as well as service capacity are reviewed to assess the level of performance in comparison to program expectations, final funding is based on performance rather than the difference between costs and revenues.

Since fiscal year 1989, cost-of-living type increases ranged from 1.5 percent to 3.5 percent. These increases, as well as funding increases for recurring costs, such as increased staff or service additions, permanently expand a grantee's base resulting in higher grant awards in succeeding years as well. Routine increases in grant awards that are not based on the difference between grantee's costs and revenues may result in grant awards that are greater than what is permitted by law.

Aside from BHCDA grants, center grantees may derive revenues from Medicare, Medicaid, patient fees, state and local governments, and third-party reimbursements for medical services provided to patients. Recent changes to the Medicaid and Medicare programs allowing higher reimbursements to health centers could substantially increase their revenues.

The Omnibus Budget Reconciliation Act of 1989 amended the Medicaid statute so that, beginning April 1, 1990, health centers could receive 100-percent reimbursement for all reasonable costs for many services provided to eligible Medicaid recipients. Previously, health centers were reimbursed for only a portion of the costs of these services. The National Association of Community Health Centers reported that this legislative change would have a major impact on health center reimbursements and could result in as much as $100 million in additional revenues nationwide. Beginning October 1, 1991, health centers are to be reimbursed at the same rate for services provided Medicare recipients as well. This should also contribute to higher revenues for health center grantees.

[2] 42 U.S.C. 254b(d)(4)(A) and 254c(d)(4)(A). The act also requires grantees to make every reasonable effort to maximize revenues.

The BHCDA Director told us that in fiscal year 1991, BHCDA initiated field testing of a new methodology for directly negotiating a funding level that supports the difference between the reasonable costs of an approved project scope and realistic levels of generated revenues. However, grantee project periods are usually for 3 years and this method is to be used only in the initial grant year. To determine annual incremental funding amounts for budget periods within the project period, the BHCDA Director told us that the funding amount will not be based on the same level of assessment of costs and revenues. Instead, the grant award amount will be based on projections made during the assessment for the initial grant year. Thus, BHCDA, in effect, would continue base-plus funding for those years.

Even with the proposed new funding methodology, BHCDA intends to exclude from consideration additional revenues resulting from recent changes to Medicaid reimbursement rates. BHCDA's funding policy states that grants for centers will not be reduced as a result of additional revenues obtained through increases in Medicaid reimbursements. Instead, existing grantees may use the additional funds to either expand the number of persons served or improve services at current centers. This policy is inconsistent with the requirements of the PHS act regarding the treatment of revenues in determining grant award amounts and could result in grant awards that are higher than what is legally allowed.

Funding Grants for Less Than 12 Months Is Generally Inconsistent With Agency Policy

PHS's grant policy allows shorter or longer funding periods than the standard 12 months to be established for compelling programmatic or administrative reasons. BHCDA's practice of routinely awarding a large number of its grants for less than the standard 12 months without disclosing the effect on funding of less than 12-month awards results in the cost of the program in any given year being understated. Consequently, neither HHS nor the Congress has been getting an accurate picture of the annual costs of supporting the center grantees.

Over the 3-year period, fiscal years 1989-91, BHCDA changed the funding period for 500 grants. Most of the grants were funded for less than a year. In each of the fiscal years 1989-91, BHCDA changed the funding period for 227, 80, and 193 grants, respectively. BHCDA increased the funding periods for 60 grants in fiscal year 1989 and 2 grants in 1990 and decreased the funding periods to less than a year for the remaining 438.

By using a funding period of less than 12 months for many of its center grants, BHCDA in effect understates the costs of the program for a fiscal

year. This occurs because BHCDA shifts costs that would normally be borne by one year's appropriation to that of the following year.

If the annual appropriation for a grant program falls short of the projected 12-month cost, several options, including the following, are available: reducing the funds for grantees, asking for additional funds in the form of a supplemental appropriation, or adjusting budget requests for subsequent years so that the same shortfall does not occur. BHCDA, instead, has awarded many grants for periods of less than 12 months, but long enough to keep the grantees going into the next fiscal year. Once in the new fiscal year, when new funds are available, the grants were funded for an additional 12 months.

Because these practices and their effect on the budget are not expressly disclosed in the budget justification submitted by BHCDA to HHS and, ultimately, to the Congress in support of BHCDA's appropriations requests, appropriations may have been enacted on the incorrect assumption that the amounts provided are sufficient to fund the program for a 12-month period until enactment of the next regular appropriation. In fact, however, the amounts requested and provided have not been sufficient for that purpose. The effect of BHCDA's practices can be illustrated as follows: to fund 551 existing grantees in fiscal year 1989 for a full year would have required the equivalent of financial support for 551 grant years of operation. However, using the funds appropriated for that year, BHCDA funded only 497 grant years—324 grants were funded for 12 months, 60 for longer than 12 months, and 167 for periods ranging from 1 to 11 months. The approximately 54 grant years of operation that BHCDA did not fund with fiscal year 1989 funds were in effect charged to the cost of the 1990 program.

Grants for periods other than 12 months, whether longer or shorter, are departures from HHS's standard policy. The PHS grants manual notes that funding in annual increments is consistent with the federal budgetary and appropriation process, congressional intent, and HHS policy. HHS budget officials told us that the agency's budget is based on the assumption that each year's appropriations will be used to fund grants for a full year.

However, BHCDA routinely has changed the grant funding periods for various reasons. In fiscal years 1989 and 1990 grant periods were changed to even out the grant-processing workload and to eliminate funding periods that started early in the fiscal year to avoid problems that would occur if appropriations were delayed. BHCDA also reduced funding periods for many

grants in fiscal year 1989 because it had overestimated the amount of carryover funds from the previous fiscal year that were expected to be available and needed to compensate for the error. Unspent funds awarded to grantees the preceding year are "carried over" and added to the available funds the next year.

By the end of fiscal year 1990, BHCDA had achieved its stated purposes of evening out the grant-processing workload and eliminating the awarding of grants during the first 2 months of the fiscal year—October and November. BHCDA also eliminated grant awards during the months of August and September; thus, reducing the number of months in which grant awards are made from 12 to 8. BHCDA, however, continued to fund a large number of grantees for less than a full year in fiscal year 1991. BHCDA's stated purpose at that time was to reduce the number of months in which grants were to be awarded from 8 to 5. This, according to BHCDA, would enable the regional offices to have longer periods of time to concentrate on such activities as technical assistance and monitoring.

BHCDA has failed to disclose the widespread and continued practice of deviating from the 12-month standard funding period. Had BHCDA funded the entire program in each of the 3 years for 12 months with the respective appropriations for those years, we estimate that it would have needed an additional $15 million in fiscal year 1989, $12 million in 1990, and over $5 million in 1991.[3]

BHCDA officials advised us that they do not plan to shift any budget start dates in fiscal year 1992. Thus, unless circumstances warrant an exception on a case-by-case basis, BHCDA plans to fund all grantees for a full 12 months in fiscal year 1992. However, should future circumstances require shifts in budget start dates that would result in a significant change in the annual obligations for the program, BHCDA's Director told us that BHCDA will disclose to HHS and the Congress the effect of such a change on a given year's appropriation.

[3]A BHCDA official advised us that our calculations could be in error by as much as $1 or $2 million because some grantees received funding for special initiatives that was not a part of the basic grant and, therefore, could distort our annualized figures.

BHCDA's Grant Award Process Lacks Adequate Internal Controls

PHS's policy requires independent reviewers who have no working or other relationship with prospective grantees to provide objective recommendations to the grant-awarding official on the merits of a grant application. Independent reviewers serve as an internal control against bias in the grant award process by persons who work with or have some other relationship with the applicants. Because program officials have direct working ties with grantees, PHS does not consider them to be free of bias and predispositions in awarding grants. Nevertheless, BHCDA's grant award process allows these program officials to present final award recommendations to the BHCDA Director in a way that may not facilitate weighing the merits of program officials' recommendations against recommendations of independent reviewers. Program officials have often differed with independent reviewers' recommendations. However, they frequently have not supported the reasons for their differences in the final award memoranda they submit to the Director for final grant-award decision. As a result, the Director does not always have a basis for considering the merits of the competing recommendations.

PHS's grants administration manual states that independent reviewers are to provide advice to the grant-awarding official based on an evaluation of the scientific or technical merit or other relevant aspects of the grant application. BHCDA's implementing instructions require independent reviewers to recommend approval, disapproval, or deferral of the application. In addition, they are to make recommendations on, among other things, the grant amount, including any yearly incremental adjustment; length of project period; and grantee performance.

Program officials receive the results of the independent regional office reviews and the grantee and regional office responses to the independent reviews, but do not receive the grant applications. These officials reconcile any differences between the two reviews, prepare the final award recommendations, and identify any outstanding issues they believe warrant the BHCDA Director's attention. BHCDA's grants management official reviews this information for compliance with administrative requirements. Program officials then present the information to the Director, who makes the final award decision. This takes place in a meeting in which the Director makes the final award decisions for a large number of grantees at one time. For example, in a meeting held on October 25, 1991, the Director made final award decisions on 81 grant applications. Because of the volume of award decisions made at one time, the BHCDA Director relies heavily on the program officials' recommendations in making these decisions. While program officials should provide advice to the BHCDA

Director on grant awards, the process should allow for the Director to fully consider the views of the independent reviewers. Otherwise, a potential bias exists in the award process that was intended to be avoided by the independent review system.

We reviewed the final recommendations of the program officials as well as the recommendations of the independent reviewers for grants awarded in fiscal year 1990. Program officials generally agreed with independent reviewers' recommendations for approval or disapproval on the 207 renewal grant applications reviewed for awards in fiscal year 1990. However, the final recommendations made to the BHCDA Director by program officials for 156 of the 207 applications differed from the independent reviewers' recommendations regarding funding levels, project periods, or the applicants' past performance. In many cases they differed in one or more of these areas.

Most often the differences involved funding levels. Program officials' and independent reviewers' recommendations on funding levels differed 85 percent of the time. The difference between the two funding level recommendations in most cases was at least $50,000 and ranged to $1.1 million. In about half the cases the program officials recommended more than the independent reviewers and in the other half less.

Program officials and independent reviewers differed in their assessment of an applicant's past performance in 47 percent of the applications. For example, independent reviewers recommended in one instance that a grantee applicant be given a grade of C. However, based on a "substantial change in information provided by the region" subsequent to the independent review, program office staff changed the grade to a B. Similarly, independent reviewers recommended a grade of D for another grantee applicant because, in part, the grantee did not fully meet the requirements that it have (1) an ongoing quality assurance program and implementation plan, (2) a financial system to maintain internal control, and (3) an adequate health care plan. However, subsequent to the independent review, the agency's cognizant regional office staff concluded that information provided to them by the applicant in response to the independent reviewers' recommendations adequately addressed the reviewers' concerns. BHCDA program officials thus upgraded the application to a B.

Changes made to letter grades are significant because, under BHCDA's base-plus method of funding grantees, grade is one factor that may affect

the funding level of the grant award. For example, a B-rated grantee generally receives full base funding and a cost-of-living type increase. A D-rated grantee, on the other hand, will usually receive less than full base funding and is not eligible for a cost-of-living type increase.

In one case, for example, the independent reviewers recommended that an application submitted by an existing grantee for a renewal grant be disapproved because the grantee's performance was deficient in a number of areas. The independent reviewers graded the applicant's performance an F and recommended that the grantee be phased out over a 60-day period and be awarded $130,292 to cover phase-out costs. In this case, regional office staff agreed with the independent reviewers. However, BHCDA program office staff disagreed because they thought the need for this center was amply demonstrated. In addition, because the problems at the center were numerous, program office staff believed more time was needed to implement effective corrective measures. Thus, they graded the grantee's performance a D and recommended a 12-month grant award of $781,752. Program office staff also recommended that an additional $125,000 be provided the grantee for one-time facility renovations.

In 30 percent of the cases, recommendations of program officials and independent reviewers differed on project periods. For example, independent reviewers noted deficiencies in an application to renew a grant that they considered serious enough to warrant funding the grantee for 6 months instead of a year so that the deficiencies could be corrected before additional funding was provided. Most of the deficiencies had been identified in the previous year's application review. The regional office staff who were responsible for monitoring the grantee's operations agreed with the independent reviewers' assessment and recommendation. However, the final recommendation of BHCDA program officials was to fund the grant for 12 months instead of 6 months because they believed the deficiencies were due to the grantee's failure to do what was required rather than any wrongdoing. The officials also believed that the grantee would respond to the shortcomings if they were clearly identified.

Because program officials and independent reviewers frequently differ regarding funding levels, performance grades, and project periods for applicants, the effectiveness of the independent review as an internal control could be preserved if such differences were reconciled by someone other than the two groups responsible for making recommendations to the Director.

The BHCDA Director told us that BHCDA agrees with the objective of strengthening the integrity of the process, but does not believe internal control requirements were violated. She believes the possibility of bias is eliminated by having the Grants Management Officer involved in the preparation of the final recommendation. While BHCDA's description of the grant review process indicates that the Grants Management Officer has a role in the final review and recommendation process, it does not describe this role. During our review we did not find that the Grants Management Officer or any of his staff had an active role in preparing the final award recommendations. A BHCDA grants management official told us that the Grants Management Officer and his staff primarily perform administrative functions involved in processing and awarding grants and answer any technical questions that may arise.

The BHCDA Director also told us that BHCDA is interested in improving the entire process and will explore avenues for reducing any perception of bias. In the short term, the Director said it will be incumbent on BHCDA to strengthen, where necessary, documentation to support the rationale for recommendations that differ from those of the independent reviewers. In the long term, BHCDA is considering shifting the focus of the independent review to a complete on-site review done by independent professionals who would assess whether the grantee meets BHCDA's program expectations.

BHCDA Funding Actions Diminish Its Control Over Funds Provided to National Associations

BHCDA's actions have diminished its control over funds provided to the National Association of Community Health Centers. Besides not always awarding grants to national associations competitively, BHCDA arranged to provide additional funds to NACHC through grantee membership dues to compensate NACHC for a reduction in its grant from BHCDA. BHCDA has significantly less control over the use of funds provided to NACHC through dues than funds provided through its grant. Moreover, since 1986, BHCDA has awarded some grants without knowing how the association would accomplish the proposed work. BHCDA also does not subject supplemental grant awards to independent review although PHS's grants manual requires that this be done when these awards expand the scope of the initial grant award.

Funding Through Grantees' Dues Diminishes BHCDA's Control Over the Use of the Funds

In fiscal year 1987, BHCDA agreed to a special funding arrangement with NACHC, which has been referred to as the Dues Assistance Plan. This plan called for BHCDA to provide additional funds to center grantees to cover increased membership dues paid by them to NACHC. The dues increase was to offset a decrease in BHCDA's direct grant to NACHC for technical and other assistance. Under this arrangement, however, BHCDA's control over how NACHC uses the funds is significantly lessened even though the funds still come from the same source, BHCDA.

In adopting the Dues Assistance Plan for funding NACHC, BHCDA in effect relinquished a significant degree of federal control over the use of these funds. For example, NACHC's use of direct grant funds for lobbying would have been disallowed. As is evident from correspondence with the grantees who are its members, some of the federal funds passed through to NACHC under the plan would enable NACHC to continue to engage in activities designed to achieve passage of legislation favorable to the centers; that is, in effect, lobbying.

NACHC asserts that it is legally permitted to use dues paid under the Dues Assistance Plan for lobbying, an activity that would not be permitted with grant funds BHCDA provided directly to NACHC. HHS disagrees. Whether or not NACHC is correct in this position, there is no doubt that BHCDA generally has less control over NACHC's use of funds provided through dues than it does through its direct grant to NACHC. To receive direct grant funds, associations must use funds in accordance with the work plan that serves as the basis for the grant award.

The Office of Management and Budget's cost principles for federal grants[1] provide that the cost of a grantee's membership in technical and professional associations is a reimbursable grant cost. The cost principles also explicitly prohibit using federal grant funds for certain other costs, such as the cost of lobbying the Congress. Whether the same prohibitions apply to an association receiving federal funds through grantee membership dues, however, is not addressed in the circular.

Why BHCDA increased funding to NACHC through membership dues rather than through its direct grant is unclear, as the reasons provided by BHCDA and NACHC records differ significantly. BHCDA instructions to regional offices responsible for distributing the additional funds to grantees stated that the funds were being provided to support a newly established goal of NACHC. According to BHCDA records, NACHC established a goal of bringing about a shift in the distribution of its sources of revenues. In order to ensure a greater degree of accountability to its members, NACHC proposed to increase its dependence on membership dues as a source of revenue.

In a letter to health center grantees, NACHC told its members that it was increasing its dues because its grant was being cut by 50 percent. If not replaced, NACHC stated, the reduced funding would, among other things, "seriously affect our [NACHC's] ability to continue to advocate in Congress on behalf of [member] programs." To remedy this, NACHC doubled its dues and established an automatic increase of 5 percent each year thereafter.

So that center grantees would not have to reduce program services, BHCDA established a "Dues Assistance Plan" to provide funds to grantees to cover the dues increase. As a result of this plan, NACHC revenues increased. The dues increase more than offset the decrease in NACHC's grant. In 1988, NACHC's grant was reduced by about $400,000, while its revenues from membership dues increased by $1,061,000, all of which was funded by BHCDA under the Dues Assistance Plan. NACHC experienced an overall increase in revenues of approximately $700,000 as a result of this new funding arrangement.

It is BHCDA's position that fiscal year 1987 is the only year in which federal grant funds are directly linked to the payment of dues. During that year, grantees could not use the supplemental funds awarded by BHCDA for any other purpose because they were specifically earmarked for dues to NACHC.

[1]Office of Management and Budget Circular A-122, "Cost Principles for Nonprofit Organizations."

Although not specifically earmarked in subsequent years, BHCDA automatically continued to support the dues increase as part of the grantees base amount under its base-plus method of determining grant award amounts.

Grant Award Process Deficient

Despite a PHS grants management requirement that relevant materials be provided to reviewers in advance, reviewers do not always have, at the time they make their review, all the information necessary to adequately assess grant applications from associations. BHCDA often allows grantees to submit specific information on how the work is to be accomplished after the grant is awarded. BHCDA then decides whether detailed information subsequently submitted sufficiently justifies the grant award. In addition, BHCDA is not following PHS's grants manual requirements in awarding supplemental grants.

Since at least 1986, grant review committees have continually raised concerns about the lack of detailed information in NACHC and the National Rural Health Association (NRHA) applications with regard to how the applicant was to achieve the objectives presented in the application. As a result, in many of these years, review committees recommended, and BHCDA required, that NACHC and NRHA submit a detailed work plan within 30 days of the grant award. According to BHCDA's Grants Management Officer, a review committee may request a detailed work plan when it is uncomfortable with the feasibility of the grantee's plan or when there are omissions in the submitted plan. However, a grant may be awarded if the application is considered minimally satisfactory, and subsequently provided information may be used to negotiate a change to the grant.

Review committees have complained about assessing the merits of proposals on the basis of incomplete applications. In recent years, review committees have recommended that NACHC and NRHA be required to submit detailed work plans with their applications. PHS and BHCDA grants management officials agree that detailed work plans should be submitted with the grant application and included in the application review. BHCDA, however, has continued to accept applications without sufficient detail on how the work is to be done. In fact, BHCDA does not provide detailed guidance to organizations applying for technical assistance grants. In contrast, specific information requirements are included as part of the standard application package provided applicants for health center grants.

Each year, BHCDA also awards additional funds to national association grantees through supplemental grant awards. PHS's grants manual requires that applications for supplemental grants for work that was not included in the scope of the original grant be subject to the same review as the initial grant. However, we found that BHCDA has not done this for supplemental grant awards to national associations that increased the original grant's scope of work.

During the past 5 years, BHCDA has awarded more than $1.3 million in supplemental funding to the three associations we reviewed—NACHC, NRHA, and NMRP. Almost every year, these associations received supplemental funds that ranged from $7,200 to $274,700. On two separate occasions, two associations received supplemental funds twice within 1 year. During the 5-year period, NACHC, NRHA, and NMRP received supplemental funding totaling $652,000, $384,000, and $249,000, respectively. Most of the applications for supplemental grants were for work beyond the scope of the original grant, and none were reviewed as required by PHS's grants manual.

BHCDA officials agreed with our findings concerning the grant award process and said that they had already begun or would begin actions to correct the deficiencies.

Conclusions and Recommendation

Conclusions

BHCDA's management of grant awards for centers and to associations indicates deficiencies in the agency's internal controls that warrant priority attention by BHCDA's management. BHCDA practices, including the routine award of grants without competition, the noncompliance with legislative funding requirements, and the failure to ensure independent review recommendations are adequately considered in making final grant award decisions, compromise the objectivity and fairness of the grant award process.

Compliance with the requirements of the laws and regulations is necessary to better ensure that the objectives of the health center program are achieved fairly, effectively, and economically. Competition would help to select the best-qualified grantee on the most favorable terms, conformance with established funding criteria would protect against awarding grantees more funds than they are entitled to by law, and consideration in the final grant award decision of the views of people without close working ties to the grantees would protect against bias in the assessment of an applicant. The wide range of deficiencies noted in BHCDA's grant award process indicates that management above BHCDA's level needs to provide closer oversight and direction to the agency in order to bring it into compliance with pertinent laws, policies, and regulations.

BHCDA has acknowledged the need to improve its grant award process in several areas. As previously indicated, BHCDA has initiated action to deal with some areas and contemplates taking action involving other areas. Regarding actions initiated, BHCDA said it is in the process of resolving the problem of issuing grant announcements late and is testing a new methodology for funding grant levels that is based on the difference between project costs and revenues. In other areas where action has not been initiated, BHCDA said it (1) will seek approval to award grants to centers without competition, (2) will disclose to the Congress and HHS the effects of any grants that are awarded for less than 1 year, (3) is interested in improving the entire process of independent reviews, and (4) recognizes the need to improve its process for awarding grants to national associations. While BHCDA has initiated actions to improve some areas of its grant award process, it needs to take steps to improve the several other areas.

Recommendation to the Secretary of HHS

To help ensure that health center grants are made fairly and objectively, and are consistent with pertinent laws, policies, and regulations, we recommend that the Secretary of HHS direct the Assistant Secretary for Health to take steps to make sure that BHCDA fully complies with all laws, policies, and regulations regarding grant awards.

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