

DEPARTMENTAL GRANT APPEALS BOARD

The Department of Health, Education, and Welfare

SUBJECT: Health Maintenance Organization DATE: December 3, 1975
 of South Carolina
 Charleston, South Carolina
 Docket No. 25
 Grant No. 04-P-0000053-03
 Decision No. 11

DECISION

The issue in this case is whether under the circumstances of this case, this grant should have been terminated by the Administrator of the Health Services Administration.

BACKGROUND

The grant was terminated on the basis of both administrative and programmatic considerations after evaluation by a Panel convened for that purpose. The Panel had recommended termination in accordance with 12 major findings made by it which are:

1. The grantee lacked an adequate accounting system.
2. The grantee used 1974 grant funds to pay \$42,922 in expenditures incurred during the 1973 grant period in violation of applicable policy.
3. The grantee made excessive and otherwise improper payments for salaries including bonuses, sudden increases in base salary of employees, clothing allowances for a secretary and payments to an individual who did not perform any work on the HMOSC grant.
4. Payment of entertainment expenses of a public relations representative was made from grant funds.
5. The grantee had inadequate personnel records.
6. The grantee lacked a written travel policy and failed to comply with standardized government travel regulations.

7. The grantee leased more space than required for project operations and subleased space to Management Services, Inc. of South Carolina from July, 1973 to February, 1974 for less than its cost to the HMOSC. (Grantee officers had a financial interest in Management Services, Inc. of South Carolina).
8. The grantee paid insurance premiums on the life of a principal officer of HMOSC in violation of applicable policy.
9. The grantee charged interest charges, documentary fees, and stamps on loans to grant funds in violation of applicable policy.
10. The grantee transferred a camera purchased with grant funds to an employee without placing funds from the sale into the grant account.
11. The grantee paid for meals for employees at local restaurants out of grant funds.
12. The grantee failed to make substantial progress toward the accomplishment of the purposes for which the grant was awarded.

In addition to these specific findings of the Panel which recommended termination, there were other specific serious findings of both the General Accounting Office and the HEW Audit Agency some of which were cited by that Panel but many of which were not there treated.

The grantee, in his appeal, gave a very general rebuttal to some charges and admitted others. Accordingly he was invited to respond in more specific detail. The grantee was also specifically requested to provide written responses to the GAO Audit and the HEW Audit Agency audit reports and to provide a response to the GAO comments on the grantee's attack of the GAO made in the original appeal document plus briefing on any additional matter he might wish. The grantee responded by restating his arguments against the GAO Audit in a general way but refused to respond with specific evidence on the various charges made, preferring instead to "incorporate by reference thereto all prior responses both written and oral."

DISCUSSION

In appealing this case the grantee initiated a process whereby he proposed to prove the PHS actions wrong. When asked to dispute "in detail each specific charge you wish to challenge" in the GAO and HEW audits he responded basically by referring to unidentified previous written responses which he did not submit to the Board but which the Board believes may refer to an undated, unsigned document addressing in a general way some of the audit findings handed in by the grantee during the hearings conducted by the termination Panel, and to unidentified previous oral responses whose utility to the Board is unfathomable. The Board notes that the grantee did not avail himself of his opportunity at an earlier stage to respond to the audit exceptions at the invitation of the HEW Audit Agency.

The Board does not consider itself bound by the views of the termination Panel and in some respects its own findings would have been more adverse to the grantee than those of the termination Panel.

On the basis of the record submitted, enough of the findings of the termination Panel are conceded or clearly established to conclude that termination is warranted.

Taken together the grantee's behavior shows a pattern of disregard of basic grant requirements and a pattern of violations that involved special benefits to employees, officers, and organizations connected with the officers which amply justified termination. These are found against a background of a basic lack of sound management practices and controls, lack of an adequate accounting system accompanied by serious violations of fund accounting rules, and lack of travel policies accompanied by a serious violation of travel rules. For purposes of exemplification some of the charges the Board concluded were true included:

- A public relations representative was paid in excess of her approved salary.
- A camera was purchased without authorization and then transferred to an employee without the proceeds going to the grant account as is required.
- Travel vouchers were not submitted and excessive advances were not accounted for.
- Grant funds were used to pay the transportation costs of the members of the corporate officers families.

- Toys were purchased out of travel funds for an employee's child.
- First class air transportation was used routinely in violation of government policy.
- An employee was paid a weekly travel allowance whether he traveled or not.
- Duplicate payments for travel were made.
- Personnel paid for out of grant funds devoted their efforts to a separate organization incorporated by officers of the grantee. The same organization was the beneficiary of an arrangement under which it sublet space from the grantee for less than the pro rata cost of the space to the grantee.
- Fire insurance premiums, life insurance premiums, and interest costs were paid from grant funds in violation of explicit government policies.

We find that on the basis of evidence of improper administration of the grant funds provided, this termination was reasonable and amply justified.

DECISION

The decision in favor of termination, supported by the program office, and the special Panel established to consider the case, and made by the Administrator of the Health Services Administration is sustained.

/s/ Bernice L. Bernstein

/s/ David V. Dukes

/s/ Francis D. DeGeorge, Panel Chairman