Grants Compliance During the COVID-19 Pandemic:
Considerations for Health Center Boards*

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Health center governing boards are a unique reflection of the communities and the patient populations they serve. Board member oversight responsibilities are significant during normal business conditions, but are heightened during times of crisis. Since the outbreak of the COVID-19 pandemic, those responsibilities have become even more critical to the sustainability of our health centers. The fallout of COVID-19 and the resulting uncertainty has forced governing boards and management teams to evaluate their ability to maintain adequate cash flow and liquidity to continue to serve our patients ever-changing needs. Adjustments to staffing and investments in new technology have become necessary to deliver services to our staff and our community. The world is changing almost daily and flexibility and innovation are musts to maintain the financial health and viability of the health center.

Fortunately, health centers have received a significant infusion of capital through the various stimulus packages passed by the Federal government. As part of the primary care delivery model and the backbone of the public health safety net, our nation's leaders weighed the impact of COVID-19 and formulated a plan for responding. For example:

- Health Resources Services Administration (HRSA) has distributed multiple supplemental grants to health centers for varying purposes in order to allow continued primary and preventative care in addition to COVID-19 specific response.
- Funds have been disbursed through the general and targeted allocations of the Provider Relief Fund.
- Many health centers were able to secure financing through the Paycheck Protection Program (PPP), which offers terms for partial or full forgiveness.

These stimulus programs have pulled many health centers back from financial uncertainty following the abrupt decline in patient visits. For those charged with governance, a common question is, **"how do we ensure compliance going forward?**" With clear guidance scarce, the risk continuum is broad. To help navigate these challenges, please consider the following five guiding principles.

1) SPEND THESE FUNDS ON REASONABLE QUALIFIED EXPENSES

Depending on the funding stream in question, the terms and conditions can vary. The supplemental grant funds from HRSA are a familiar resource to health centers and the budget process provides some additional clarity and formal approval. Similarly, the PPP regulations define how the proceeds can be used and what can be captured during the eight-week forgiveness term. Other programs, such as the Provider Relief Fund disbursements, are more general in nature. Conversely, all programs share one unifying concept – the funds must be spent on reasonable qualifying expenses and cannot be applied to an expense that is already covered

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by another source. This is commonly known as the **"no double-dipping"** concept. Applying this concept may result in the health center deferring revenue for a period of time. It is important to understand the terms and timelines associated with each program to prevent funds from being unused or subject to return. While health center staff will certainly administer the funding streams, ***what is the Board of Director's role in this? It is advisable to ask management to explain how they are monitoring compliance with these new programs and request that regular updates on these programs and funding streams be part of the financial statement review and discussion during the monthly board meeting.***

2) THESE FUNDS CANNOT DROP TO THE BOTTOM-LINE AS PROFIT

This guiding principle goes hand in hand with "no double dipping". The term "replacement of lost revenue" has caused some confusion. Some health centers leaders have misunderstood the "lost or forgone revenue" conditions attached to some funding streams. Based on our understanding, demonstrating lost or forgone revenue is only half of the story. The other half is demonstrating how the health center used the federal stimulus money. Please consider how the health center would answer the question from a regulator or an auditor when he or she asks: "how did you use the stimulus money?" Responding with "the funds covered our lost revenue for dental" could be considered an inadequate response. Please also consider the following: If your health center furloughed all dental staff during the pandemic, leaving a fraction of your expenses to be realized and you are backfilling all (or nearly all) of your forgone revenue, the health center could be accused of profiting from the pandemic by furloughing a department, which would be inconsistent with the spirit of the program. Absent clear guidance to the contrary, health centers should consider the risk of pursuing such a strategy. Please consider both sides of the story; that the stimulus money back filled lost or forgone revenue AND was applied to these health care delivery costs (be it dental or otherwise). In our opinion, this is a much better answer for an auditor and regulator. Now is the time to think strategically about these programs. ***As board members, you play a vital role in asking questions of management on how these funds have been obligated or spent. This will help ensure that management has thought about these questions and are ready to stand up to the scrutiny of the auditor or regulator. The board should be working with management to develop a plan for the funding received as well as contingency plans for an uncertain future.***

3) DON'T BE AFRAID TO MAKE INVESTMENTS, USE THE MONEY TO DO MORE FOR THE PATIENTS YOUR SERVE

The heart of the health center program has always been delivering high-quality, accessible care to the patients in your community, regardless of their ability to pay. The pandemic has shifted how we provide this care. New investments may be needed in staffing with skill sets in modern technology such as telehealth platforms. These funds can be used to carry on the legacy of understanding how patients are being affected and responding to those needs. The health center may have unusual needs that are not expressly permitted or prohibited. When there are questions, ensure the CEO has the appropriate staff member reach out to your trusted advisor or project officer to help determine if that activity is allowable. ***Boards will be involved in strategic conversations about investments. Document your consideration and the decision-making process, and, if determined to be reasonable and appropriate, authorize the investment to help your community through these trying times!***

4) UNDERSTAND THE IMPACT OF ALL COMPLIANCE RULES

Health center leaders should understand the rules and regulations that are attached to the funds. The compliance requirements outlined in the Uniform Grants Guidance, which is the administrative law that governs uses of grant funds, and support that should be maintained, continue to apply. ***As a board member, ask questions about how your health center will apply the following grants management concepts:***

- *Federal cost principles* – These principles are used to determine allowable and allocable costs against federal awards. It is important for financial staff to be familiar with permissible uses of and restrictions related to the funds awarded to your health center so that allocated costs are for the proper purpose.

- *Procurement principles* – These principles define allowable procurement methods and processes grantees must follow when using federal dollars to make purchases. Purchases over $10,000 and $250,000, respectively, come with unique rules and it is important that these rules are kept in mind when spending federal dollars to help avoid questioned costs in the future.

- *Support for effort attributable to federal awards* – These principles discuss the support that must be maintained by federal grantees for salary and wage expense. Federal grantees are not permitted to allocate wage expense to federal awards based on budgets. Also, allocations of salary and wage expense to federal awards should be supported by a system of internal controls which provides reasonable assurance that these costs are appropriately attributable to the grant.

The pandemic has not suspended or superseded federal grants management regulations. It is important that health center leaders approach all of the funds available to them with the mindset that it is not if, but when auditors will review their use of funds and the records to support those uses. The Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal awards ("UGG") is located at 2 CFR Part 200 (as implemented by the Department of Health and Human Services (DHHS) at 45 CFR 75. The UGG can be accessed through the link provided below: https://www.ecfr.gov/cgi-bin/retrieveECFR?gp=1&SID=501752740986e7a2e59e46b724c0a2a7&ty=HTML&h=L&r=PART&n=pt45.1.75#se45.1.75_1400.

5) PRACTICAL APPLICATION TOOLS

Health centers should track expenses, not only in natural classification (salary, benefits, rent, interest, etc.) but also by funding source (H80, H8D, PPP, Provider Relief, etc.) within the general ledger. We recognize, however, due to the unique environment, health centers may need to use electronic spreadsheets to supplement documentation. If your health center chooses this approach, make sure the expenses are clearly tied back to the general ledger and the spreadsheet is designed to help prevent double dipping. In doing so, an auditable set of records will be created to monitor the amounts charged to the program. This process could also help a health center prevent recording the same expense to multiple funding streams, thereby preventing the dreaded "double dip". ***As a board member, take this opportunity to understand how your organization is tracking expenses and remain informed about the health center's progress in obligating funds received.***

Health centers are rising to meet the challenge of COVID-19 and maintaining the strength and flexibility of our health care delivery model. This is a herculean task even with health centers receiving strong financial support to position them for success. As a health center board member, you may not be an expert in grants management, but it is important to be familiar with the issues that management is facing, participate in strategic decision-making when appropriate, and ask questions to ensure appropriate board oversight. It is important to plan to address these compliance issues to help position your health center to emerge from COVID-19 financially stable and able to withstand audit scrutiny.

Additional Information and Questions?

- For additional governance resources focused on COVID-19, please visit https://www.healthcenterinfo.org/priority-topics/covid-19/ and look under "Governance"
- For additional information on Financial Considerations, please note the availability of Strategies to Manage Financial Operations During COVID-19 Response and Recovery (Podcast Series) at https://conferences.nachc.org/nachc/articles/3028/view
- If you have a general health center governance question, please contact Emily Heard, Director of Health Center Governance at trainings@nachc.org.

- For additional resources from NACHC related to COVID-19, please visit https://www.healthcenterinfo.org/priority-topics/covid-19/ and http://www.nachc.org/coronavirus/, or contact preparedness@nachc.org.

**Please note that health centers are responsible for determining appropriate and tailored operations and strategies suitable for their organization, staff, patients, and community. Health centers should refer to applicable State, Local, and Organizational regulations in consultation with the health center's general counsel and other advisors as appropriate.*

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