



January 10, 2011

**TO:** Mary Wakefield, Ph.D., R.N.  
Administrator  
Health Resources and Services Administration

**FROM:** /Lori S. Pilcher/  
Assistant Inspector General for Grants, Internal Activities,  
and Information Technology Audits

**SUBJECT:** Results of Limited Scope Review at Heritage Health and Housing, Inc.  
(A-02-10-02009)

The attached final report provides the results of our limited scope review of Heritage Health and Housing, Inc. This review is part of an ongoing series of reviews performed by the Office of Inspector General (OIG) to provide oversight of funds provided by the American Recovery and Reinvestment Act of 2009, P.L. No. 111-5 (Recovery Act).

Section 8L of the Inspector General Act, 5 U.S.C. App., requires that the OIG post its publicly available reports on the OIG Web site. Accordingly, this report will be posted at <http://oig.hhs.gov>.

Please send us your final management decision, including any action plan, as appropriate, within 60 days. If you have any questions or comments about this report, please do not hesitate to call me at (202) 619-1175 or through email at [Lori.Pilcher@oig.hhs.gov](mailto:Lori.Pilcher@oig.hhs.gov). Please refer to report number A-02-10-02009 in all correspondence.

Attachment

Department of Health & Human Services

**OFFICE OF  
INSPECTOR GENERAL**

**RESULTS OF LIMITED SCOPE  
REVIEW AT  
HERITAGE HEALTH AND  
HOUSING, INC.**



Daniel R. Levinson  
Inspector General

January 2011  
A-02-10-02009

# ***Office of Inspector General***

<http://oig.hhs.gov>

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The mission of the Office of Inspector General (OIG), as mandated by Public Law 95-452, as amended, is to protect the integrity of the Department of Health & Human Services (HHS) programs, as well as the health and welfare of beneficiaries served by those programs. This statutory mission is carried out through a nationwide network of audits, investigations, and inspections conducted by the following operating components:

## ***Office of Audit Services***

The Office of Audit Services (OAS) provides auditing services for HHS, either by conducting audits with its own audit resources or by overseeing audit work done by others. Audits examine the performance of HHS programs and/or its grantees and contractors in carrying out their respective responsibilities and are intended to provide independent assessments of HHS programs and operations. These assessments help reduce waste, abuse, and mismanagement and promote economy and efficiency throughout HHS.

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The Office of Evaluation and Inspections (OEI) conducts national evaluations to provide HHS, Congress, and the public with timely, useful, and reliable information on significant issues. These evaluations focus on preventing fraud, waste, or abuse and promoting economy, efficiency, and effectiveness of departmental programs. To promote impact, OEI reports also present practical recommendations for improving program operations.

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The Office of Investigations (OI) conducts criminal, civil, and administrative investigations of fraud and misconduct related to HHS programs, operations, and beneficiaries. With investigators working in all 50 States and the District of Columbia, OI utilizes its resources by actively coordinating with the Department of Justice and other Federal, State, and local law enforcement authorities. The investigative efforts of OI often lead to criminal convictions, administrative sanctions, and/or civil monetary penalties.

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The Office of Counsel to the Inspector General (OCIG) provides general legal services to OIG, rendering advice and opinions on HHS programs and operations and providing all legal support for OIG's internal operations. OCIG represents OIG in all civil and administrative fraud and abuse cases involving HHS programs, including False Claims Act, program exclusion, and civil monetary penalty cases. In connection with these cases, OCIG also negotiates and monitors corporate integrity agreements. OCIG renders advisory opinions, issues compliance program guidance, publishes fraud alerts, and provides other guidance to the health care industry concerning the anti-kickback statute and other OIG enforcement authorities.

# *Notices*

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**THIS REPORT IS AVAILABLE TO THE PUBLIC**  
at <http://oig.hhs.gov>

Section 8L of the Inspector General Act, 5 U.S.C. App., requires that OIG post its publicly available reports on the OIG Web site.

## **OFFICE OF AUDIT SERVICES FINDINGS AND OPINIONS**

The designation of financial or management practices as questionable, a recommendation for the disallowance of costs incurred or claimed, and any other conclusions and recommendations in this report represent the findings and opinions of OAS. Authorized officials of the HHS operating divisions will make final determination on these matters.

## **EXECUTIVE SUMMARY**

### **BACKGROUND**

The Health Centers Consolidation Act of 1996 (P.L. No. 104–299) consolidated the Health Center Program under Section 330 of the Public Health Service Act, codified at 42 U.S.C. § 254(b). Pursuant to 42 U.S.C. § 254(b), the Health Center Program is a national program designed to provide comprehensive primary health care services to medically underserved populations through planning and operating grants to health centers. Within the U.S. Department of Health & Human Services, the Health Resources and Services Administration (HRSA) administers the Health Center Program. The HRSA health centers are community-based and patient-directed organizations that serve populations with limited access to health care.

Under the American Recovery and Reinvestment Act of 2009, P.L. No. 111-5 (Recovery Act), enacted February 17, 2009, HRSA received \$2.5 billion, including \$2 billion to expand the Health Center Program to serve more patients, stimulate new jobs, and meet the significant increase in demand for primary health care services among the Nation’s uninsured and underserved populations.

Heritage Health and Housing, Inc. (Heritage), is a non-profit agency that provides housing, counseling, supportive, and healthcare services to residents located in the New York City area.

Heritage is funded primarily by patient service revenues and Federal and State grants. During calendar year 2009, HRSA awarded Recovery Act funds to Heritage totaling \$555,017. Of that amount, \$400,010 was allocated for the renovation of medical and dental suites, the purchase of new medical and dental equipment, and an electronic medical records system. The remaining \$155,007 was allocated for increasing the number of patients served.

### **OBJECTIVE**

Our objective was to assess Heritage’s financial viability, capacity to manage and account for Federal funds, and capability to operate a health center in accordance with Federal regulations.

### **SUMMARY OF FINDINGS**

Based on our assessment, Heritage’s financial viability may be adversely impacted by its financial condition in Fiscal Years 2006 through 2008. During this period, Heritage’s expenditures exceeded operating revenues and current liabilities exceeded current assets. Moreover, while Heritage is generally capable of managing and accounting for Federal funds and operating a health center in accordance with Federal regulations, we noted issues related to Heritage’s accounting system and to certain procedures, including cash management, procurement, and whistleblower protection. Finally, Heritage does not maintain inventory records or have written procedures for periodically performing a physical inventory.

## **RECOMMENDATION**

When monitoring the Recovery Act funds, we recommend that HRSA consider the information presented in this report in assessing Heritage's ability to account for and manage Federal funds and to operate a community health center in accordance with Federal regulations.

## **HERITAGE HEALTH AND HOUSING, INC., COMMENTS**

In written comments on our draft report, Heritage generally concurred with our findings and described its completed and ongoing actions to address the deficiencies we identified. Regarding our assessment of its financial viability, Heritage stated that its excess expenditures over revenues for FYs 2006 through 2008 were covered by other revenues, resulting in positive cash flows in each of those years; that its financial position improved significantly in FY 2009; and that it expects further improvements in FY 2010 and beyond. However, Heritage acknowledged that its current ratio for FY 2009 was .75, "still below the desirable ratio of 1:1." In addition, Heritage stated its accounting system software is designed to use cost centers to properly capture funding sources and programs when tracking expenditures and revenues. Heritage's comments are included in their entirety as the Appendix.

## **OFFICE OF INSPECTOR GENERAL RESPONSE**

After reviewing Heritage's comments, we maintain our findings regarding its financial viability and accounting system. For an organization to be considered fiscally sound, operating revenues should consistently meet or exceed operating expenses. Further, for FYs 2006 through 2008, Heritage's audited financial statements indicated that it operated with negative cash flows. We also maintain that, during our fieldwork, Heritage did not use its accounting software to segregate the organization's operating expenses between Federal and non-Federal programs.

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HERITAGE HEALTH AND HOUSING, INC., COMMENTS	

## **INTRODUCTION**

### **BACKGROUND**

#### **The Health Center Program**

The Health Centers Consolidation Act of 1996 (P.L. No. 104–299) consolidated the Health Center Program under Section 330 of the Public Health Service Act, codified at 42 U.S.C. § 254(b). Pursuant to 42 U.S.C. § 254(b), the Health Center Program is a national program designed to provide comprehensive primary health care services to medically underserved populations through planning and operating grants to health centers. Within the U.S. Department of Health & Human Services, the Health Resources and Services Administration (HRSA) administers the Health Center Program.

The Health Center Program provides grants to nonprofit private or public entities that serve designated medically underserved populations and areas, and vulnerable populations composed of migrant and seasonal farm workers, the homeless, and residents of public housing. Health centers funded by HRSA are community-based and patient-directed organizations meeting the definition of “health center” under 42 U.S.C. § 254(b).

Under the American Recovery and Reinvestment Act of 2009, P.L. No. 111-5 (Recovery Act), enacted February 17, 2009, HRSA received \$2.5 billion, including \$2 billion to expand the Health Center Program to serve more patients, stimulate new jobs, and meet the significant increase in demand for primary health care services among the Nation’s uninsured and underserved populations.

#### **Heritage Health and Housing, Inc.**

Heritage Health and Housing, Inc. (Heritage), is a non-profit agency that provides housing, counseling, supportive, and healthcare services to residents located in the New York City area.

Heritage is funded primarily by patient service revenues and Federal and State grants. During calendar year 2009, HRSA provided Recovery Act funds to Heritage totaling \$555,017. Of that amount, \$400,010 was allocated for the renovation of medical and dental suites, the purchase of new medical and dental equipment, and an electronic medical records system. The remaining \$155,007 was allocated for increasing the number of patients served by hiring additional staff.

#### **Requirements for Federal Grantees**

Nonprofit organizations that receive HRSA funds must comply with Federal cost principles found at 2 CFR pt. 230, “Cost Principles for Non-Profit Organizations” (formerly Office of Management and Budget (OMB) Circular A-122). In addition, 42 U.S.C. § 254(b) defines requirements for health centers under the Health Center Program.

The Standards for Financial Management Systems found at 45 CFR § 74.21, establish regulations for grantees to maintain financial management systems. Grantees’ financial



management systems must provide for accurate, current, and complete disclosure of the financial results of each HHS-sponsored project or program (45 CFR § 74.21(b)(1)); must ensure that accounting records are supported by source documentation (§ 74.21(b)(7)); and must provide effective control over and accountability of all funds, property, and other assets so that recipients adequately safeguard all such assets and assure they are used solely for authorized purposes (§ 74.21(b)(3)). Grantees also must have written procedures for determining the reasonableness, allocability, and allowability of costs in accordance with the provisions of the applicable Federal cost principles and the terms and conditions of the award (§ 74.21(b)(6)).

In addition, grantees must establish written procurement procedures that include certain provisions as set forth in 45 CFR § 74.44. Moreover, grantees must establish procedures related to whistleblower protection. Grantees are also required to maintain inventory control systems and take periodic inventory of grant related equipment. Finally, grantees are also required to submit quarterly status reports to the Federal Government regarding their use of Recovery Act funds.

## **OBJECTIVE, SCOPE, AND METHODOLOGY**

### **Objective**

Our objective was to assess Heritage's financial viability, capacity to manage and account for Federal funds, and capability to operate a health center in accordance with Federal regulations.

### **Scope**

We conducted a limited review of Heritage's financial viability, financial management system, and related policies and procedures. Therefore, we did not perform an overall assessment of Heritage's internal control structure. Rather, we performed limited tests and other auditing procedures on Heritage's financial management system to assess its ability to administer federally funded projects.

We performed our fieldwork at Heritage's administrative office in New York, New York, during March 2010.

### **Methodology**

To accomplish our objective, we:

- reviewed relevant Federal laws, regulations, and guidance;
- reviewed Heritage's HRSA grant application packages and supporting documentation;
- interviewed Heritage personnel to gain an understanding of its accounting system and internal controls;

- reviewed Heritage’s financial management procedures related to accounting documentation, preparation of financial reports, procurement, drawdown of Federal funds, inventory, and other financial matters;
- reviewed Heritage’s quarterly status reports submitted to the Federal Government;
- reviewed Heritage’s independent audit reports and related financial statements for Fiscal Years (FYs) 2006 through 2008;
- performed ratio analyses of Heritage’s financial statements; and
- reviewed Heritage’s administrative procedures related to personnel, conflict resolution, whistleblower protection, and other non-financial matters.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

## **FINDINGS AND RECOMMENDATION**

Based on our assessment, Heritage’s financial viability may be adversely impacted by its financial condition in FYs 2006 through 2008. During this period Heritage’s expenditures exceeded operating revenues and current liabilities exceeded current assets. Moreover, while Heritage is generally capable of managing and accounting for Federal funds and operating a health center in accordance with Federal regulations, we noted issues related to Heritage’s accounting system and to certain procedures; including cash management, procurement, and whistleblower protection. Finally, Heritage does not maintain inventory records or have written procedures for periodically performing a physical inventory.

### **FINANCIAL VIABILITY**

Heritage is a longstanding and viable organization. However, our assessment of Heritage’s financial position for FYs 2006 through 2008 identified two weaknesses:

- Heritage’s expenditures exceeded its operating revenues by \$223,467 in FY 2006, \$329,769 in FY 2007, and \$642,943 in FY 2008.<sup>1</sup>
- Heritage’s current liabilities exceeded its current assets by \$1,324,637 in FY 2006, \$554,021 in FY 2007, and \$1,439,525 in FY 2008.

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<sup>1</sup> Heritage’s operating revenues totaled \$13,753,695 in FY 2006, \$14,350,398 in FY 2007, and \$15,089,297 in FY 2008.

For an organization to be considered fiscally sound, revenues should exceed expenditures and current assets should exceed current liabilities. Therefore, the weaknesses we identified could adversely impact Heritage's financial viability and affect its ability to pay off its short-term debt obligations.<sup>2</sup>

## **ACCOUNTING SYSTEM**

Pursuant to 45 CFR § 74.21, grantees must maintain financial systems that provide for accurate and complete reporting of grant-related financial data. Pursuant to 45 CFR § 74.22(b)(2), cash advances to grant recipients shall be limited to the minimum amounts needed. Pursuant to 2 CFR, pt. 230, App. A, § A(4)(a)(1) (OMB Circular A-122, Att: A, § A.4.a.1), grant expenses must be incurred specifically for the grant award.

Heritage does not use its accounting software to properly segregate the organization's operating expenses between Federal and non-Federal programs. As a result, Heritage does not properly use immediate expenses as the basis for withdrawing grant funds from the HHS payment management system. Specifically, Heritage withdraws an equal amount of grant funds every quarter until the funds are exhausted; however, it records the amount drawn down as incurred Federal expenditures on its quarterly status reports submitted to the Federal Government.<sup>3</sup> As a result, Federal funds may be used to pay for non-Federal expenses throughout each quarter and, consequently, quarterly status reports submitted to the Federal Government may not provide for accurate and complete reporting of grant-related financial data.

## **CASH MANAGEMENT PROCEDURES**

Pursuant to 45 CFR § 74.22(b)(2), cash advances to grant recipients shall be timed to be in accordance with the actual, immediate cash requirements of the recipient organization in carrying out the purpose of the approved program or project.

Heritage overdrew \$19,918 of Recovery Act funds during 2009. Specifically, Heritage agreed to pay two general contractors a total of \$232,000 to renovate its medical and dental suites. During August and September of 2009, Heritage drew down the entire \$232,000 from the HHS payment management system; however, it only paid the contractors a total of \$212,082. As of August 6, 2010 Heritage was holding the remaining \$19,918 for one of the contractors until renovations are completed. In addition, Heritage reported \$232,000, rather than the \$212,082 paid to the contractors, as expenditures on the September 30, 2009 quarterly status reports submitted to the Federal Government.

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<sup>2</sup> We note that pursuant to 45 CFR § 74.14, awarding agencies may impose additional requirements, as needed, if an applicant or recipient has a history of poor performance or is not financially stable.

<sup>3</sup> Heritage submits a Standard Form 269, Financial Status Report and a Health Center Quarterly Report to HRSA via a secure website as well as a Recovery Act report via a Federal government Web site for reporting Recovery Act funding data.

## **PROCUREMENT PRACTICES**

Pursuant to 45 CFR § 74.44, grantees are required to establish written procurement procedures, which require solicitations for goods and services to provide a clear and accurate description of the technical requirements for the material, product or service to be procured, requirements which the bidder/offeror must fulfill and all other factors to be used in evaluating bids or proposals, and the specific features of “brand name or equal” descriptions that bidders are required to meet when such items are included in the solicitation. In addition, grantees must document that every procurement action is supported by some form of cost or price analysis. Pursuant to 45 CFR § 74.42, grantees must establish written standards of conduct to avoid conflicts of interest when procuring goods and services with Federal funds.

Heritage established written procurement procedures that require competitive bidding for purchases of materials, supplies, equipment, or services. However, Heritage did not always follow these policies. Specifically, Heritage procured dental equipment and services from two general contractors to renovate its medical and dental suites—totaling \$232,000—without documenting that a cost or price analysis was performed. Moreover, Heritage did not solicit competitive bids for these purchases. As a result, Heritage may not have purchased these items in the most economical, practical, and competitive manner. Finally, Heritage’s written procurement procedures do not contain standards of conduct which address conflicts of interest when procuring goods or services with Federal funds.

## **WHISTLEBLOWER PROCESS**

Section 1553(a) of the Recovery Act prohibits reprisals against employees of an organization awarded Recovery Act funds for disclosing to appropriate authorities any credible evidence of (1) gross mismanagement of an agency contract or grant relating to covered funds; (2) a gross waste of covered funds; (3) a substantial and specific danger to public health or safety related to the implementation or use of covered funds; (4) an abuse of authority related to the implementation or use of covered funds; or (5) a violation of law, rule, or regulation related to an agency contract (including the competition for or negotiation of a contract) or grant awarded or issued relating to covered funds. Pursuant to section 1553(e) of the Recovery Act, any employer receiving covered funds shall post notice of the rights and remedies provided for the protection of employees under this section.

Heritage established a whistleblower policy detailing how employees can communicate instances of wrongdoing to Heritage officials or any public body. However, the policy does not protect whistleblowers against all forms of retaliation for reporting instances of wrongdoing to a public body. Specifically, the policy states that employees that make reports directly to a public body without first advising a supervisor of suspected instances of wrongdoing may not be protected.

## **INVENTORY RECORDS**

Pursuant to 45 CFR § 74.34(f), grantees must maintain inventory records that contain the following information for equipment acquired with Federal funds: a description of the equipment, an identification number, its location, acquisition and disposition data, condition of property, and whether title vests with the grantee or the Federal Government. In addition, grantees must perform a physical inventory and reconcile the results of its inventory with existing records at least once every two years.

Heritage does not maintain inventory records or perform a physical inventory of equipment at least once every two years. Further, Heritage does not have written policies and procedures for maintaining inventory records or performing a physical inventory in accordance with Federal regulations. As of FY ending June 30, 2009, Heritage's equipment was valued at \$579,676, according to its 2009 audited financial statements.

## **RECOMMENDATION**

When monitoring the Recovery Act funds, we recommend that HRSA consider the information presented in this report in assessing Heritage's ability to account for and manage Federal funds and to operate a community health center in accordance with Federal regulations.

## **HERITAGE HEALTH AND HOUSING, INC., COMMENTS**

In written comments on our draft report, Heritage generally concurred with our findings and described its completed and ongoing actions to address the deficiencies we identified. Regarding our assessment of its financial viability, Heritage stated that its excess expenditures over revenues for FYs 2006 through 2008 were covered by other revenues, resulting in positive cash flows in each of those years; that its financial position improved significantly in FY 2009; and that it expects further improvements in FY 2010 and beyond. However, Heritage acknowledged that its current ratio for FY 2009 was .75, "still below the desirable ratio of 1:1." In addition, Heritage stated its accounting system software is designed to use cost centers to properly capture funding sources and programs when tracking expenditures and revenues. Heritage's comments are included in their entirety as the Appendix.

## **OFFICE OF INSPECTOR GENERAL RESPONSE**

After reviewing Heritage's comments, we maintain our findings regarding its financial viability and accounting system. For an organization to be considered fiscally sound, operating revenues should consistently meet or exceed operating expenses. Further, for FYs 2006 through 2008, Heritage's audited financial statements indicated that it operated with negative cash flows. We also maintain that, during our fieldwork, Heritage did not use its accounting software to segregate the organization's operating expenses between Federal and non-Federal programs.

## **OTHER MATTER: MANAGEMENT OFFICIAL SEVERANCE PACKAGE**

Pursuant to 2 CFR pt. 230, to be allowable under a Federal award, costs must be reasonable in nature. In determining the reasonableness of a given cost, consideration is given to whether the cost is generally recognized as ordinary and necessary for the operation of the organization and whether the organization acted with prudence.

During our audit period, Heritage's Board of Directors and a senior management official reached a mutual agreement to end the senior management official's employment with Heritage because of irreconcilable differences. The president of Heritage's Board of Directors and the official subsequently signed a severance agreement; however, there was no employment contract between Heritage and the official requiring such an agreement. As part of its severance, Heritage provided the official a \$64,904 (\$20,685 Federal share<sup>4</sup>) package consisting of three months salary during the official's inactive status (\$31,250), five days of accrued leave earned during his inactive status (\$2,404), and a three-month lump sum payment (\$31,250). Heritage also provided the official with health insurance and the use of a company vehicle and desktop computer during his inactive status; and a laptop computer and BlackBerry device to keep after his employment officially ended. Because of Heritage's accounting and inventory system weaknesses, Heritage officials could not determine whether Federal or non-Federal funds were used to purchase the former official's vehicle, computers, or BlackBerry. Normal severance payments are generally allowable for Federal reimbursement. However, because Heritage was not bound by an employment contract, the Board could have elected not to provide the official with a severance package. HRSA should consider whether the Board's decision to provide the official with a severance package was prudent given the fact that Heritage was experiencing financial difficulties, as outlined in this report.

In its written comments on our draft report, Heritage stated that the composition of the Board has changed substantially since its decision to provide the official with a severance package. Heritage also indicated that it will share the matter with the current Board for policy consideration.

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<sup>4</sup> To calculate the impact of the severance payment on Federal funds, we examined Heritage's 2009 financial statements and calculated the percentage of Federal revenues (\$5,642,400) to revenues received from all sources (\$17,706,725). We then applied this percentage (31.87 percent) to the total severance payment (\$64,904) to determine the Federal share.

# **APPENDIX**

**APPENDIX: HERITAGE HEALTH AND HOUSING, INC., COMMENTS**

# Heritage Health and Housing, Inc.

*...over 40 years of service to the community*

BOARD OF DIRECTORS

**David M. Rosenthal, Ph.D**

*Chairperson of the Board*

**Doris D. Wooten, CSW**

*Vice Chair*

**Yvonne Foster Kilpatrick,**

**MS.Ed.**

*Secretary*

**Camille Mangham, CPA**

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Monica Braggs

Lillian Brown, EdD.

John Cardwell, Ph.D.

Robin Chapelle

Fred V. Goode

Earl Washington

*Colleen BonnickLewis*

*Chief Executive Officer /*

*Executive Director*

Heritage Health Care Center

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Alvaro Simmons

Director

Main Office

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New York, NY 10027

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November 5<sup>th</sup> 2010

James P. Edert

Department of Health and Human Services

Office of Audit Services

Regional Inspector General for Audit Services

Region II

Jacob Javits Federal Building

26 Federal Plaza-Room 3900

New York, NY 10278

Dear Mr. Edert:

Enclosed you will find the written comments to the "Results of Limited Scope Review at Heritage Health and Housing, Inc." If you have any questions, please feel free to contact me at 212-866-2600 ext 1116.

Sincerely,



Colleen BonnickLewis

Chief Executive Officer/ED

Ref: A-02-10-02009





**HERITAGE HEALTH AND HOUSING, INC. RESPONSES TO:  
DHHS-RESULTS OF LIMITED SCOPE REVIEW AT HERITAGE HEALTH AND  
HOUSING, INC.**

**FINANCIAL VIABILITY**

Heritage is a longstanding and viable organization. However, our assessment of Heritage's financial position for FYs 2006 through 2008 identified two weaknesses:

- Heritage's expenditures exceeded its operating revenues by \$223,467 in FY 2006, \$329,769 in FY 2007, \$642,943 in FY 2008.
- Heritage's current liabilities exceeded its current assets by \$1,324,637 in FY 2006, \$554,021 in FY 2007, and \$1,439,525 in FY 2008.

For an organization to be considered fiscally sound revenues should exceed expenditures and current assets should exceed current liabilities. Therefore, the weaknesses we identified could adversely impact Heritage's financial viability and affect its ability to pay off its short-term debt obligations.

**Response: Non-concurrence: Heritage Health and Housing, Inc. (Heritage) has a well established presence as a health and humans services organization in the West and Central Harlem community for approximately forty-years. The organization is known to be dedicated to the delivery of culturally competent care that meets and exceeds the ever changing needs of the community. To this end, Heritage has taken several critical steps during to rectify the findings from the site visit as well as to ensure future compliance with all of its operational functions both programmatic and financial.**

**Excess expenditures over revenues for FYs 2006-2008 were covered by the other revenue such as development and construction fee income in the amounts of \$264,550, \$463,979, \$1,971,940 respectively resulting in positive cash flow in each of those years.**

**With the hiring of a qualified Finance team since FY 2009, our financial position has improved significantly. Heritage Health Center operating revenue exceeded its expenses by \$351,182, a sign of improvement from previous years. The overall agency current ratio improved from 0.66 in FY2008 to 0.75 in FY2009, although it is still below the desirable ratio of 1:1 to this end, the organization senior leadership recently completed a preliminary action plan to increase revenue and reduce expenditures. We expect further improvement will be noted in FY 2010 and in future years despite economic realities.**

**Ref: A-02-10-02009**

**ACCOUNTING SYSTEM**

Heritage does not use its accounting software to properly segregate the organization's operating expenses between Federal and non-Federal programs. As a result, Heritage does not properly use immediate expenses as the basis for withdrawing grant funds from the HHS payment management system. Specifically, Heritage withdraws an equal amount of grant funds every quarter until the funds are exhausted; however, it records the amount drawn down as incurred Federal expenditures on its quarterly status reports submitted to the Federal Government. As a result, Federal funds may be used to pay for non-Federal expenses throughout each quarter and consequently, quarterly status reports submitted to the Federal Government may not provide for accurate and complete reporting of grant-related financial data.

**Response: Non-concurrence: We currently use Fund EZ which has been designed to use cost centers to properly capture funding sources and programs when tracking expenditures and revenues. The use of the cost centers curbs the inappropriate use of funds.**

**CASH MANAGEMENT PROCEDURES**

Heritage over drew \$19,918 of Recovery Act funds during 2009. Specifically, Heritage agreed to pay two general contractors a total of \$232,000 to renovate its medical and dental suites. During August and September of 2009, Heritage drew down the entire \$232,000 from the HHS payment management system; however, it only paid the contractors a total of \$212,082. As of August 6, 2010 Heritage was holding the remaining \$19,918 for one of the contractors until renovations are completed. In addition, Heritage reported \$232,000, rather than the \$212,082 paid to the contractors, as expenditures on the September 30, 2009 quarterly status reports submitted to the Federal Government.

**Response: Concurrence: Heritage has a policy in place that prohibits the drawdown of funds in advance. This is a one-time event that occurred as a result of a billing question. Heritage stood ready to pay the contractor based on the invoice received. A subsequent walkthrough called the invoice into question and Heritage held the money pending resolution and cost verification. The dispute has taken longer to resolve than anticipated. Heritage is still holding this money pending resolution with the contractor.**

**Ref: A-02-02009**

## **PROCUREMENT PRACTICES**

Heritage established written procurement procedures that require competitive bidding for purchases of materials, supplies, equipment, or services. However, Heritage did not always follow these policies. Specifically, Heritage procured dental equipment and services from two general contractors to renovate its medical and dental suites-totaling \$232,000-without documenting that a cost or price analysis was performed. Moreover, Heritage did not solicit competitive bids for these purchases. As a result, Heritage may not have purchased these items in the most economical, practical, and competitive manner. Finally, Heritage's written procurement procedures do not contain standards of conduct which address conflicts of interest when procuring goods or services with Federal funds.

**Response: Concurrence: The current procurement policy was established in FY 2010. Heritage has been following its procurement procedure policy since that time. Staff members of Heritage recall that several contractors bid on the work for contractor services and purchases for Dental equipment were the responsibility of the contractor. These contractors are no longer employed by Heritage. The procurement policy has been revised to include the following language: "No purchasing of goods can be made from businesses owned by the Heritage Health and Housing Inc. employees or members of the Board of Directors." Attachment A**

## **WHISTLEBLOWER PROCESS**

Heritage established a whistleblower policy detailing how employees can communicate instances of wrongdoing to Heritage officials or any public body. However, the policy does not protect whistleblowers against all forms of retaliation for reporting instances of wrongdoing to a public body. Specifically, the policy states that employees that make reports directly to a public body without first advising a supervisor of suspected instances of wrongdoing may not be protected.

**Response: Concurrence: The Personnel Policy and Procedure Manual that includes the Whistleblower Policy section has been reviewed by several government agencies, attorneys and the Board of Directors of Heritage Health and Housing. It was most recently revised in September 2009. The Chief Executive Officer will recommend to the Board of Directors strike from the policy the specific language that states "employees that make reports directly to a public body without first advising a supervisor of suspected instances of wrongdoing may not be protected."**

**Ref: A-02-10-02009**

**INVENTORY RECORDS**

Heritage does not maintain inventory records or perform a physical inventory of equipment at least once every two years. Further, Heritage does not have written policies and procedures for maintain inventory records or performing a physical inventory in accordance with Federal regulations. As of FY ending June 30, 2009, Heritage's equipment was valued at \$579,676, according to its 2009 audited financial statements.

**Response: Concurrence: Heritage's fixed asset policy will be revised to include language on inventory records and performing physical inventory. It will be submitted to the board for approval. Attachment B.**

**OTHER MATTER: MANAGEMENT OFFICIAL SEVERANCE PACKAGE**

During our audit period, Heritage's Board of Directors and a senior management official reached a mutual agreement to end the senior management official's employment with Heritage because of irreconcilable differences. The president of Heritage's Board of Directors and the official subsequently signed a severance agreement; however, there was no employment contract between Heritage and the official requiring such an agreement. As part of its severance, Heritage provided the official a \$64,904 (\$20,685 Federal share) package consisting of three month salary during the official's inactive status (\$31,250), five days of accrued leave earned during his inactive status (\$2,404), and a three-month lump sum payment (\$31,250). Heritage also provided the official with health insurance and the use of a company vehicle and desktop computer during his inactive status; and a laptop computer and BlackBerry device to keep after his employment officially ended. Because of Heritage's accounting and inventory system weakness, Heritage officials could not determine whether Federal or non-Federal funds were used to purchase the former official's vehicle, computers, or BlackBerry. Normal severance payments are generally allowable for Federal reimbursement. However, because Heritage was not bound by an employment contract, the Board could have elected not to provide the official with a severance package. HRSA should consider whether the Board's decision to provide the official with a severance package was prudent given the fact that Heritage was experiencing financial difficulties, as outlined in this report.

**Response: The severance package decision was made by the Board whose membership has changed substantially since the decision was made on the severance package. The federal share of this severance cannot be verified. It is most likely that the severance was paid from development fee proceeds. This finding will be shared with the current Board of Directors and recorded in the minutes for policy consideration.**

**Ref: A-02-10-02009**

**Attachment A:**

**Heritage Health and Housing, Inc.  
Purchasing Procedures**

Each Department is authorized to obtain quotes for purchase of materials, supplies, equipment, or services. It is the goal of Heritage Health and Housing to be competitive in its procurement activities. Departments shall solicit 3 quotes, and select the lowest cost, acceptable quality, quotation that meets the requirements.

Upon selecting the winning quote, Departments shall prepare the purchase requisition memo to obtain approvals. Approvals for the expense must be approved by the department head and then by the executive director.

After the request has been approved, the department/program may initiate a purchase.

Departments shall retain the quotes in their file, and attach a copy of the winning quote to the invoice.

No purchasing of goods can be made from businesses owned by the Heritage Health and Housing Inc. employees or members of the Board of Directors.

**Exceptions:**

1. Emergency Repairs

2. Blanket Orders: A blanket order is a purchase order that is established with a vendor to permit a Department to make repetitive small purchases over a given time period, usually up to one (1) year, and up to a maximum dollar limit. The blanket order is an efficient method for User Departments to save time, improve lead time, and reduce paperwork.

Purchasing shall review blanket orders each year for appropriate action.

**Attachment B:**

**Addendum to Fixed Asset Policy**

**Maintenance of Property Records:**

Heritage maintains a ledger which lists all the property on the balance sheet by date purchased, description of asset, useful life and cost of asset. The ledger will also show the current year's depreciation charge and total accumulated depreciation as well as net book value of asset.

Furniture and equipment will be labeled with an identifying code, letter or number that will be noted in the fixed asset ledger.

It will be noted on the asset ledger which items purchased have reversionary rights and with which source of funds that the items were purchased.

A physical inventory will be conducted on a periodic basis on all fixed assets.

The Controller is responsible for proper inventory control.