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OFFICE OF THE STATE COMPTROLLER

September 19, 2005

Antonia C. Novello, M.D., M.P.H., Dr. P.H.
Commissioner
Department of Health
Corning Tower
Empire State Plaza
Albany, NY 12237

Re: Report 2005-F-15

Dear Dr. Novello:

Pursuant to the State Comptroller's authority as set forth in Article V, Section 1 of the State Constitution; and Article II, Section 8 of the State Finance Law, we have followed up on the actions taken by officials of Health Research, Inc. (HRI) to implement the recommendations contained in our audit report, *Disbursement of Grant Funds* (Report 2002-S-39).

Background, Scope, and Objective

HRI is a not-for-profit corporation established by administrative action of the Commissioner of the Department of Health (Department) to administer federal, State, and private funding in order to support, supplement, and extend the research functions and programs of the Department. HRI is organized into three divisions, headed by one executive director. The Corporate Division and one operating division (Albany Division) are located together in the Capital District, while the second operating division (Buffalo Division) is located in Buffalo. The Albany Division serves major Department programs, including those at the Wadsworth Center and the AIDS Institute. The Buffalo Division serves the research programs of the Roswell Park Cancer Research Center (Roswell Park). The Corporate Division is responsible for the overall administration of the Albany and Buffalo Divisions.

Each operating Division has its own purchasing, payroll, and accounting staff to administer and authorize disbursements of grant funds. In general, HRI assists the Department and Roswell Park in obtaining and administering grants that enable Department and Roswell Park scientists, program managers and employees, to conduct scientific investigations into health research and to deliver public health programs. When a grant opportunity is identified, the scientist or program manager works with HRI's grant managers to help prepare and submit a grant application.

HRI establishes a separate account for each grant and grants are typically for a three- to five-year period, with funding renewed on an annual basis. The grants are funded on a cost reimbursable basis. A cost reimbursable grant or contract is an agreement whereby a budget is established along with a scope of work. The grantee or contractor is then reimbursed for expenses incurred in performing the scope of work.

The majority of HRI funds are provided by federal grants from the National Institutes of Health (NIH) and its parent agency, the Department of Health and Human Services. During the fiscal year ended March 31, 2005, the Albany Division expended \$374 million for direct grant costs: \$74 million for personal services and \$300 million for other direct costs. The Buffalo Division expended \$49 million for direct grant costs: \$31 million for personal services and \$18 million for other direct costs during the same period.

HRI also enters into agreements with subcontractors in order to carry out work on the grants. Subcontracts are typically renewed on an annual basis. As of March 31, 2005, the Albany Division maintained 498 subcontracts valued at \$102.5 million with 448 subcontractors. As of March 31, 2005, the Buffalo Division maintained 28 subcontracts valued at approximately \$2.2 million with 21 subcontractors. Like grants, the majority of subcontracts are funded on a cost reimbursable basis.

Our initial audit report, which was issued on August 21, 2003, examined HRI's administration of grant fund disbursements from the Albany and Buffalo Divisions for the period April 1, 2000 through September 30, 2002. The objectives of this financial related audit were to determine whether HRI has adequate controls over the disbursement of grant funds, whether those funds were disbursed consistently with the terms of the grant agreements, and whether HRI has accounted for those disbursements correctly. Our audit found that HRI's Albany Division needed to improve its controls and monitoring practices over the grant disbursements made to subcontractors. We found that payments could not be supported by adequate documentation or were not allowable under the terms of the grant agreements. The objective of our follow-up, which was conducted in accordance with generally accepted government auditing standards, was to assess the extent of implementation as of August 10, 2005 of the four recommendations included in our initial report.

Summary Conclusions and Status of Audit Recommendations

We found that HRI officials have made significant progress in implementing the recommendations. Of the four initial audit recommendations, three recommendations have been implemented and one recommendation has been partially implemented.

Follow-up Observations

Recommendation 1

Recover from subcontractors all claimed expenses that cannot be supported by adequate documentation or that are unallowable under the terms of the grant agreements.

Status - Implemented

Agency Action - HRI recovered all of the claimed expenses that were not supported by adequate documentation or were unallowable under the terms of the grant agreements from four of the five subcontractors we had reviewed during our initial audit. HRI recovered \$6,951 from the fifth subcontractor. This subcontractor provided HRI with documentation to support the remaining expenses we had questioned during our initial audit.

Recommendation 2

Evaluate current practices relating to the submission of supporting documentation by subcontractors. For example, it may be appropriate to define circumstances when additional documentation should be required from subcontractors before HRI reimburses claimed expenses.

Status - Implemented

Agency Action - HRI officials stated that the evaluation of current practices relating to the submission of supporting documentation by subcontractors has been performed. They determined that their current documentation levels met the standard required by their federal sponsors and therefore no changes are needed.

Recommendation 3

Clarify and better communicate current policies and procedures with regard to sales tax, late fees, refunds and retention of supporting documentation.

Status - Implemented

Agency Action - In August 2003, officials began sending letters to all subcontractors to update them on current policies and procedures. The letters also informed subcontractors of issues commonly found in HRI's review of subcontractor expenses. Officials intend to send the letters out on a semiannual basis. The audit team reviewed a copy of the letter that was recently sent out and concluded that it clarifies and better communicates current policies and procedures to subcontractors.

Recommendation 4

Increase the number of desk audits performed. Consider incorporating site visits as part of the audit review process.

Status - Partially Implemented

Agency Action - There were 26 desk audits completed in 2002. HRI completed 20 desk audits in both 2003 and 2004. As of July 2005, HRI had completed 17 desk audits with an additional 9 in-process. While the number of desk audits begun as of July 2005 remained the same as the 2002 level, HRI officials have also added site visits to the audit review process. In addition to the 20 desk audits in 2003 and 2004, HRI completed five field audits in 2004. In addition to the 17 desk audits completed and the nine in process as of July 2005, two field audits were completed and three were in-process.

Major contributors to this report were Bill Clynes, Don Collins, and Jennifer Van Tassel.

We thank the management and staff of the Department of Health for the courtesies and cooperation extended to our auditors during this process.

Very truly yours,

Steven E. Sossei
Audit Director

cc: Robert Barnes, Division of the Budget