



New York City Health and Hospitals Corporation

Contracts for Personal and Miscellaneous Services

Report 2009-N-4



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of State Government Accountability

September 16, 2010

Mr. Alan D. Aviles
President
New York City Health and Hospitals Corporation
125 Worth Street
New York City, NY 0013

Dear Mr. Aviles:

The Office of the State Comptroller is committed to helping State agencies, public authorities and local government agencies manage government resources efficiently and effectively and, by so doing, providing accountability for tax dollars spent to support government operations. The Comptroller oversees the fiscal affairs of State agencies, public authorities and local government agencies, as well as their compliance with relevant statutes and their observance of good business practices. This fiscal oversight is accomplished, in part, through our audits, which identify opportunities for improving operations. Audits can also identify strategies for reducing costs and strengthening controls that are intended to safeguard assets.

Following is a report of our audit of Contracts for Personal and Miscellaneous Services. The audit was performed pursuant to the State Comptroller's authority as set forth in Article V, Section 1 of the State Constitution and Unconsolidated Laws (New York Consolidated Laws Service), Sections 4 (subdivision 9) and 22.

This audit's results and recommendations are resources for you to use in effectively managing your operations and in meeting the expectations of taxpayers. If you have any questions about this report, please feel free to contact us.

Respectfully submitted,

*Office of the State Comptroller
Division of State Government Accountability*



State of New York Office of the State Comptroller

EXECUTIVE SUMMARY

Audit Objectives

The first objective of our audit was to determine whether the New York City Health and Hospitals Corporation (HHC) justified the need to contract out for personal and miscellaneous services. Our second objective was to determine whether HHC periodically reassessed personal and miscellaneous service contracts to identify what work could be deferred, eliminated, or reduced to save HHC funds.

Audit Results - Summary

In August 2008, in response to the ongoing fiscal crisis facing the State of New York, the Governor directed that State agencies evaluate all programs and operations to identify opportunities to eliminate less essential activities and achieve spending reductions of 10.35 percent. This action builds upon directives issued since 2003 which require agencies to ensure that expenditures are justified and are periodically reassessed. Although HHC is not a State agency, as a public benefit corporation, it receives significant funding from the State and is also faced with projected deficits exceeding \$1 billion for both 2010 and 2011.

Although HHC was unable to provide us with a listing of all contracts for personal and miscellaneous services (Service Contracts), accounting records indicate that it spent about \$1.2 billion on personal and miscellaneous services between the 2007 and 2009 fiscal years; an average of about \$400 million per year. HHC's procurement policies generally require that officials justify the need to contract out for personal and miscellaneous services. In addition, HHC's President has also issued a budget reduction memorandum which, among other actions, requires that most existing consultant contracts be reviewed to determine whether they can be deferred or eliminated.

We reviewed a judgmental sample of 22 procurements of personal and miscellaneous services valued at more than \$13.8 million and found that HHC had documented justification for 13 cases totaling nearly \$11.6 million. However, HHC did not have adequate documentation that would justify procuring an outside vendor for the remaining nine contracts, with a total value of \$2.1 million. HHC agreed additional justification was necessary for one of these contracts. For the other eight cases, officials stated that the decisions to use outside vendors, although not memorialized in writing, had been based on numerous internal discussions and that in some cases, the justification is implicit based on industry standards and the nature of the specific service. We acknowledge that there are times when certain services and staff need to

be acquired from external sources. However, in such cases, a documented analysis is important to fully support that HHC's conclusions about necessity and cost-effectiveness are correct and that opportunities and options for cost savings have been fully considered.

We also examined documentation related to each of the 22 procurements and Service Contracts in our sample to determine if any included evidence indicating they had been periodically reassessed during our audit period in keeping with the President's directive. For two cases totaling \$108,088, we determined that periodic reviews were not feasible because the services had been completed in a short time frame, rather than on an ongoing basis. In two other cases totaling \$137,869, we found HHC had evaluated procurements, deciding to cancel one contract and continue the other. However, there was no evidence that HHC staff had reassessed the other 18 Service Contracts, which totaled \$13.6 million.

HHC officials told us that reviews were conducted as directed, but that the process was not summarized or otherwise memorialized in writing because the President had not specifically requested that a written record be maintained. They also stressed that, although they have not identified cost savings specific to these procurements, they are committed to identifying opportunities to reduce costs and address the projected deficits through various actions that include a hiring freeze, as well as targeted service and workforce reductions, estimated to save HHC more than \$200 million annually. HHC Officials informed us that, as of January 12, 2010, their actions have resulted in cumulative savings of \$100 Million.

We acknowledge that HHC may well realize cost savings if these actions are completed. However, HHC officials did not provide us with documentation to support either their projections or any actual cost savings achieved. Even if supported, however, these plans do not supplant the need for HHC to review its Service Contracts to determine whether any can be deferred, eliminated or reduced to achieve further savings. If officials compile a complete listing of all current and planned Service Contracts and conduct a top-to-bottom review of each one, it is likely they will find some services that could be cut. Even a 10-percent reduction in spending, such as that requested from State agencies by the Governor, would have resulted in savings of about \$1.4 million on just the small sample of procurements that we reviewed. If applied against HHC's average annual spending on personal and miscellaneous services, potential savings could approach \$40 million.

Our report contains two recommendations for improving HHC's oversight of its personal and miscellaneous services contracts. Department officials generally disagreed with one of our recommendations, indicating that they believe current procedures are adequate.

This report, dated September 16, 2010, is currently available on our website at: <http://www.osc.state.ny.us>.

Add or update your mailing list address by contacting us at: (518) 474-3271 or

Office of the State Comptroller

Division of State Government Accountability

110 State Street, 11th Floor

Albany, NY 12236

Introduction

Background

The New York City Health and Hospitals Corporation (HHC), a public benefit corporation created in 1970, serves about 1.3 million patients annually and is the largest municipal hospital and health care system in the United States. HHC is managed by a Board of Directors and provides comprehensive medical and mental health services through eleven acute care hospitals, four skilled nursing facilities, six diagnostic and treatment centers, a home health care agency, and more than eighty community-based clinics. In addition, HHC provides medical services to New York City's correctional facilities and also operates a managed care health plan. HHC's facilities are organized into seven health care networks. The networks were established to improve efficiencies by coordinating the operations within each specific network.

HHC's operating budget for fiscal year 2009 totaled \$6.3 billion, including payroll costs of about \$2.5 billion for its 38,668 employees. HHC acquires outside professional and miscellaneous services to assist it in achieving its mission, either through individual procurements or longer term contracts (Service Contracts). Service Contracts can be for professional services, such as actuarial and temporary staffing services, or nonprofessional services, such as shredding of documents and electrical services. HHC officials were unable to provide us with a listing of all Service Contracts, but accounting records indicate the organization spent approximately \$1.2 billion on personal and miscellaneous services during the 2007 through 2009 fiscal years; an average of about \$400 million per year.

Audit Scope and Methodology

We audited selected aspects of HHC's administration of its personal and miscellaneous service contracts for the period July 1, 2006 through December 10, 2009. Our objectives were to determine whether HHC (1) justified the need to contract out for personal and miscellaneous services contracts and (2) periodically reassessed personal and miscellaneous service contracts to identify what work could be deferred, eliminated, or reduced to save HHC funds. For the purposes of our audit, personal and miscellaneous services contracts are those in which the majority of the costs associated with the contracts/payments are for services and labor. We did not audit contracts for commodities, capital construction, or other types of expenditure that are not service-related. We also did not audit HHC's physician affiliation agreements.

To accomplish our objectives, we interviewed HHC personnel and reviewed contracts, purchase orders and other supporting documentation provided by HHC. We also reviewed HHC's procurement and contracting

policies and reviewed a budget reduction memorandum issued by the corporation's president. From an analysis of expenditures by individual hospitals, we judgmentally selected for review 22 procurements totaling \$13.8 million for the period of July 2007 through June 2008; focusing on purchase orders valued at more than \$50,000. We selected items such as actuarial services, shredding, and advertising, as well as for temporary staffing.

We conducted our 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 objectives.

In addition to being the State Auditor, the Comptroller performs certain other constitutionally and statutorily mandated duties as the chief fiscal officer of New York State. These include operating the State's accounting system; preparing the State's financial statements; and approving State contracts, refunds, and other payments. In addition, the Comptroller appoints members to certain boards, commissions, and public authorities, some of whom have minority voting rights. These duties may be considered management functions for purposes of evaluating organizational independence under generally accepted government auditing standards. In our opinion, these functions do not affect our ability to conduct independent audits of program performance.

Authority

This audit was performed pursuant to the State Comptroller's authority as set forth in Article V, Section 1 of the State Constitution and Unconsolidated Laws (New York Consolidated Laws Service), Sections 4 (subdivision 9) and 22.

Reporting Requirements

We provided a draft copy of this report to HHC officials for their review and comments. Their comments were considered in preparing this report and are included at the end of the report. HHC officials, although disagreeing with one of our recommendations, provided details regarding the procedures already in place, as well as the actions they are taking to address our conclusions and the remaining recommendation. A copy of HHC's response is attached to this report. Our rejoinders to HHC's response are included in State Comptroller's Comments at the end of the report.

Within 90 days of the final release of this report, we request the President of the New York City Health and Hospital Corporation report to the State Comptroller advising what steps were taken to implement the

recommendations contained herein, and where recommendations were not implemented, the reasons why.

Contributors to the Report

Major contributors to this report include Kenrick Sifontes, Sheila Jones, Rita Verma, David Schaeffer, Elijah Kim, and Margarita Ledezma.

Audit Findings and Recommendations

Justification of Personal and Miscellaneous Service Contracts

According to HHC's policies, procurements for professional services valued at \$50,000 or more, as well as nonprofessional services valued at \$1 million or more, require approval from HHC's Board of Directors before a contract can be awarded. To obtain Board approval for these larger contracts, requestors must determine and document not only the need for the services, but also why those services could not be provided by in-house staff.

We selected a judgmental sample of 22 procurements for outside services totaling \$13.8 million based on disbursement information provided by HHC. We reviewed HHC's procurement files to determine whether the decision to acquire these outside services had been justified with supporting documentation. The 22 procurements covered items such as advertising, actuarial services, training, temporary staffing, shredding, and electrical work. HHC officials were able to demonstrate that they had formally evaluated and justified the need to contract out for 13 of the 22 procurements totaling nearly \$11.6 million. However, there was no documentation to support the need to contract out in the other nine instances, which totaled \$2.1 million.

In response, HHC officials agreed that additional supporting documentation was warranted for one of the nine procurements involving medical technicians who provide monitoring services. However, for the other eight, the officials asserted that the nature of the services implicitly required that they be contracted out, thus negating the need for supporting documentation. These eight instances included procurements for services such as training, home health aide services and temporary staff. HHC officials advised us that it was necessary to acquire these temporary personnel services through external staffing agencies because of the severe shortage of nurses and other skilled services. They added that it is in HHC's best interest, as well as standard industry practice, to use outside vendors to acquire qualified hospital personnel because, in addition to the nursing shortage, some assignments are only temporary. They assert that the use of external agency staffing allows HHC to acquire these temporary personnel resources at the lowest possible cost. They also claimed that decisions to use outside vendors for other types of services, although not memorialized in writing, have been the result of numerous internal discussions.

We acknowledge that there are times when certain services and staff need to be acquired from external sources. However, in such cases, a

documented analysis is important to fully support that HHC's conclusions about necessity and cost-effectiveness are correct and that opportunities and options for cost savings have been fully considered.

**Reassessment
of Personal and
Miscellaneous
Service Contracts**

In August 2008, in response to the ongoing fiscal crisis facing the State of New York, the Governor directed that State agencies evaluate all programs and operations to identify opportunities to eliminate less essential activities and achieve spending reductions of 10.35 percent. This action builds upon a series of directives issued by the New York State Division of the Budget and the Governor beginning in 2003 which set forth expectations for State agencies to make sure that expenditures, including Service Contracts, are justified and are periodically reassessed.

Although HHC is not a State agency, as a public benefit corporation, it receives significant funding from the State and is faced with some of the same fiscal problems. According to its internal budget reports, HHC will incur an operating deficit of \$1.1 billion during fiscal year 2010, and an even larger deficit is projected for 2011. Given these forecasted deficits, it is important that HHC also perform periodic reviews of all Services Contracts to determine what work can be deferred, eliminated or reduced to save money.

We found HHC does not routinely perform periodic reviews of all active Service Contracts to identify savings opportunities. In fact, records are structured such that officials were not even able to provide us with a complete listing of all active Service Contracts, which would be the starting point for such a comprehensive review. Instead, in December 2008, HHC's President issued a budget reduction memorandum which, among other actions, required that existing consultant contracts (except those related to IT and revenue generating projects) be reviewed to determine whether they can be deferred or eliminated. HHC officials told us these reviews were conducted, but were unable to provide documentation of their analysis and conclusions. They told us that the process was not summarized or otherwise memorialized in writing because the President had not specifically requested that a written record be maintained.

We therefore reviewed documentation related to each of the 22 procurements and Service Contracts in our sample to determine if any included evidence indicating they had been periodically reassessed during our audit period. For two of these procurements totaling \$108,088, we determined that periodic reviews were not feasible because the services had been completed in a short time frame, rather than on an ongoing basis. We found that HHC had not performed reviews for 18 of the other 20 Service Contracts totaling \$13.6 million. We did find that HHC had evaluated the final two procurements, which totaled \$137,869. In one

case, the service was cancelled; in the other, a decision was made to continue the contract.

Given the fiscal situation facing both HHC and the State, officials should ensure that all Service Contract spending is properly reassessed, and that these reviews are documented and retained. If officials compile a complete listing of all current and planned Service Contracts and conduct a top-to-bottom review of each one, it is likely they will find some services that could be reduced to achieve savings. Even a 10-percent reduction in spending, such as that requested from State agencies by the Governor, would have resulted in savings of about \$1.4 million on just the small sample of procurements we reviewed. If applied against HHC's average annual spending on personal and miscellaneous services, potential savings could approach \$40 million.

In response, HHC's officials stated that, although they have not identified cost savings specific to most of the procurements we tested, they are committed to identifying opportunities to cut costs and to mitigate the impact of reduced funding from the State. Officials indicated that HHC has undertaken cost-containment and revenue-generating actions to offset its projected deficits; including implementing a hiring freeze, as well as targeted service and workforce reductions. They projected that these actions will save HHC more than \$200 million annually. In addition, they cited more than 200 process-improvement initiatives that have been completed throughout the corporate office and most of its facilities/networks, which they stated have resulted in \$100 Million in savings as of January 12, 2010.

We acknowledge that HHC may well realize cost savings if these actions are completed. However, these plans do not supplant the need for HHC to review its Service Contracts to determine whether they can be deferred, eliminated or reduced to achieve further savings.

- Recommendations**
1. Executive management should communicate to appropriate staff the requirement to support Service Contracts with written justifications of the need for the service, the appropriate level of service, and the need to contract out.

(HHC officials agreed to document future decisions when incurring services from an external source.)

2. Periodically review and monitor all personal and miscellaneous procurements and contracts to determine whether any of them could be deferred, eliminated, or reduced; whether the services could be performed by HHC employees; and take such actions to the extent possible. Document the review and decisions made.

(HHC officials disagree with this recommendation and maintain that existing procedures are adequate.)

Agency Comments



125 Worth Street, Room 514, New York, NY 10013 Tel: 212-788-3321 alan.aviles@nychhc.org

Alan D. Aviles
President

August 2, 2010

Steven E. Sossei, CPA
Audit Director
Office of the State Comptroller
Division of State Government Accountability
123 William Street
New York, New York 10038

RE: Draft Audit Report – New York City Health and Hospitals Corporation’s Contracts for Personal and Miscellaneous Services (2009-N-4)

Dear Mr. Sossei:

Thank you for the opportunity to respond to your draft audit report regarding the above subject.

I was pleased to read that the audit disclosed no improprieties in the Corporation’s solicitation of external services for the sample reviewed. The report does make some constructive observations in some areas that we believe will enhance our existing operation. However, although some improvements will be implemented, based upon our review and analysis of the audit results, we do not agree with some of the audit conclusions and assumptions regarding our procurement processes.

Contracts are periodically reviewed at the time of renewal and as part of the annual budget process to determine whether the continuation of external resources is beneficial to the Corporation and our patients. Furthermore, contracts valued at \$50,000 and above are processed, reviewed and approved in accordance with our existing operating procedures, including an independent in-depth review by the Contract Review Committee and subsequent approval by the Board of Directors.

Attachment A provides a more detailed response to the audit findings/issues as outlined in the draft audit report. Attachment B is the Audit Implementation Plan, which addresses all of the recommendations cited.

If you have any questions regarding our response, please call Mr. Walter Otero, Assistant Vice President, Office of Internal Audits, at 646-458-5603.

Sincerely,

A handwritten signature in black ink, appearing to read 'Alan D. Aviles', is written over a light blue horizontal line.

Alan D. Aviles

*

Comment
1

* See State Comptroller’s Comments, page 23.

cc: Ramanathan Raju, MD, MBA, FACS, Executive Vice President/Chief Medical Officer, Medical & Professional Affairs
Frank J. Cirillo, Senior Vice President and Chief Restructuring Officer
Salvatore J. Russo, Esq., General Counsel, Legal Affairs
Marlene Zurack, Senior Vice President/CFO, Finance/Managed Care
Joe Schick, Chief of Staff, President's Office
Ana Marengo, Senior Vice President, Communications & Marketing
Jose R. Sanchez, Senior Vice President, Generation+ Northern Manhattan Network
John M. Palmer, PhD., Executive Director, Harlem Hospital Center
Antonio D. Martin, Senior Vice President, Central Brooklyn Network
Lynda D. Curtis, Senior Vice President, South Manhattan Network
William P. Walsh, Senior Vice President, North Bronx Network
Ann Marie Sullivan, Senior Vice President, Queens Network
Arnold Saperstein, MD, Metroplus Health Plan
Joseph Quinones, JD, Assistant Vice President, Contract Administration & Control, Operations
Christopher Telano, Chief Internal Auditor/AVP, Office of Internal Audits
Walter Otero, Assistant Vice President, Office of Internal Audits

Attachment A

NEW YORK CITY HEALTH AND HOSPITALS CORPORATION DETAIL RESPONSE TO AUDIT REPORT 2009-N-4

JUSTIFICATION OF PERSONAL AND MISCELLANEOUS SERVICE CONTRACTS

In your audit report, nine items were identified indicating that there was “no documentation to support the need to contract out.” These items represent only 15% of the total dollar value of your judgmental sample. Most notably, we respectfully disagree with your conclusion for one item, a consultant contract. In that case, prior to engaging the individual for services rendered, the Network followed the requirements for individual contractors in accordance with Corporate Operating Procedure (OP) 20-3. This OP requires justification be incorporated as part of the request prior to engagement. We have analyzed the justification provided and determined the documentation was sufficient for this contract.

*
Comment
2

We appreciate recognition of HHC’s need to procure outside services due to severe shortages of nurses and other skilled workers. We will follow your recommendation to document future decisions to procure these services in writing.

REASSESSMENT OF PERSONAL AND MISCELLANEOUS SERVICE CONTRACTS

Periodic Review of Service Contract

The report states: “HHC does not routinely perform periodic reviews of all active Service Contracts to identify savings opportunities.”

HHC Response

We do not agree with this conclusion. It is a misinterpretation of HHC’s procurement processes based on two small judgmental samples of 15 and 9 purchases orders that were selected for review. Annually, the Corporation procures approximately \$1.3 billion in Other Than Personal Services (OTPS) including service contracts. The Networks, Facilities and Central Office divisions process approximately 285,000 purchase orders annually for goods and services. The samples selected by the auditors were not representative of the population and should not have been used to support their conclusion.

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Comment
3

Moreover, service contracts are periodically reviewed by facilities and Central Office when contracts are up for renewal and as a component of the annual budget process including at the request of the President’s Office. Determinations are made by senior management whether to modify or terminate external contracted services based upon facility and patient needs, resources and justification for continuation. Moreover, certain contracts that must be approved by the Board of Directors are vetted through the Contract Review Committee (CRC), a subcommittee of the Board of Directors, for an independent in-depth review. The CRC was established by the Board to provide assurances that, prior to Board review and approval, contracts recommended for execution have been solicited and negotiated in accordance with Corporate standards and operating procedures. The CRC is comprised of the ten individuals or designees including:

* See State Comptroller’s Comments, page 23.

Senior Vice President, Operations; Assistant Vice President for Contract Administration; Senior Vice President, Finance; General Counsel; Chief of Staff; and one Network Senior Vice President who rotates every six months. Your audit sample included purchases above \$50,000 which were procured in the manner described above.

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Comment
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Therefore, we have determined that it will not be necessary to implement recommendation (#2) related to this issue due to the existing processes in place.

Budget Reductions

The report states: “Instead, in December 2008, HHC’s President issued a budget reduction memorandum which, among other actions, required that existing consultant contracts (except those related to IT and revenue generating projects) be reviewed to determine whether they can be deferred or eliminated. HHC officials told us these reviews were conducted, but were unable to provide documentation of their analysis and conclusions.”

HHC Response:

HHC continues to be proactive in reducing overall costs to maintain our mission, while addressing the fiscal constraints imposed by on-going legislation to reduce financial support. The Budget Reduction memorandum, you referenced in the report, only pertains to an *analysis* of existing or pending consulting contracts. It was conducted to determine whether it was possible to cancel them without impact to revenue generation. However, as part of the overall cost containment initiatives, the network/facilities and Central Office analyzed both their personal services (PS) and OTPS operating budgets (including contracts) to identify and implement specific cost savings which were reported to senior corporate management in the form of budget reductions.

Contract Repository

The report states: “In fact, records are structured such that officials were not even able to provide us with a complete listing of all active Service Contracts, which would be the starting point for such a comprehensive review.”

HHC Response:

As previously discussed in numerous meetings with your audit team, HHC is a decentralized system of hospitals, and our procurement procedures allow each network/facility the autonomy to formulate its own contract solicitations and awards based on unique needs to ensure patient safety and provide the best medical practices available. Contracts are maintained in various network/facility and Central Office repositories such as Capital, Mayor’s Office of Contract Services (MOCS) and Materials Management at both the facilities and Central Office. We have provided a sample of one of these repositories from Central Office for your review (Exhibit I).

In addition, the Corporation is in the implementation phase of the GHX Contract Management System. This system will provide HHC additional controls, monitoring tools and reports for management of contracts awarded. We are in the process of determining what contracts will be centralized in the data base and which will remain decentralized.

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Comment
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* See State Comptroller’s Comments, page 23.

You correctly determined that we do not have one repository for all service contracts. However, HHC does have a system that enables it to retrieve account information including contract value, amounts expended, and method of purchase. Such information was available and would have been provided had the auditors requested it.

Service Reductions

The report states: “Even a 10-percent reduction in spending, such as that requested from State agencies by the Governor, would have resulted in savings of about \$1.4 million on just the small sample of procurements we reviewed. If applied against HHC’s average annual spending on personal and miscellaneous services, potential savings could approach \$40 million.”

HHC Response:

The potential savings you have extrapolated based upon the suggested methodology, 10 percent reduction to OTPS, may be too simplistic for an organization the size and complexity of HHC. We believe this methodology does not effectively consider or take into account the impact on patient care and critical services provided by HHC throughout the City. As you are aware, our mission is to provide comprehensive health services regardless of the patient’s ability to pay. HHC extends medical, mental health and substance abuse services to over 1.3 million people annually of which 450,000 are uninsured patients. In addition to acute inpatient services, primary care and a broad range of specialty outpatient services, HHC offers multiple centers of excellence, e.g., six regional trauma centers, 11 designated AIDS centers, two burn centers, two regional perinatal centers, 11 sexual assault forensic examiner centers, and eight stroke centers.

Additionally, as we inform the auditors, HHC has implemented two cost containment plans and a restructuring plan that will yield HHC over \$600 million in savings and new revenue annually. Such plans, when fully implemented will yield results far greater than an arbitrary budget reduction target, as our plans will achieve the desired results without negatively impacting the quality of patient care and the great strides HHC has made in areas of patient safety and quality.

Ongoing Budget Reform Initiative & Cost Saving Measures

The report states: “Officials indicated that HHC has undertaken cost-containment and revenue-generating actions to offset its projected deficits; including implementing a hiring freeze, as well as targeted service and workforce reductions. They projected that these actions will save HHC more than \$200 million annually.

We acknowledge that HHC may well realize cost savings if these actions are completed. However, despite a number of requests to do so, HHC officials have not provided us with their analysis, nor any other documentation to support either their projections or any actual cost savings achieved.”

HHC Response:

We do not agree with this statement. The Corporation recognizes that metrics are critical to managing a budget reduction program in an organization the size of HHC. The President has outlined the results of corporate initiatives through a recent message to staff and management, of which some of those statements were incorporated into the body of your draft report.

* See State Comptroller’s Comments, page 23.

* Comment 6

The Corporation has continuously remained proactive in addressing the shortfalls identified by the Governor's Office. On December 12, 2008, HHC's President issued a memorandum outlining specific cost saving measures that required immediate and continued implementation.

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Comment
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To further address our commitment to implementing costs saving measures, we are re-submitting the cumulative results of the "Breakthrough and Hiring Freeze" initiatives (**Appendix G**). I am pleased to report that as of January 12, 2010, Breakthrough has identified a cumulative savings totaling \$31.3 million. Through December 2009, the Hiring Freeze initiative has also saved the Corporation an additional \$68.7 million. These two programs combined, represent the Corporations commitment to minimizing cost while maintaining its commitment to providing healthcare services that are second to none in New York State.

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Comment
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* See State Comptroller's Comments, page 23.

State Comptroller's Comments

1. In preparing the final report, we have chosen to not include Attachment B, in the interest of brevity. This document is available for inspection upon request. Such requests should be made to the Office of the State Comptroller's Press Office at (518) 474-4015.
2. As indicated in the report, HHC officials provided documentation that would justify the need for the service. However, they did not provide documentation that would justify their decision not to perform the service internally.
3. Our conclusion was based not only on the analysis of our judgmental sample, but also on a number of interviews with HHC officials.
4. We were informed during the audit that HHC officials conduct periodic reviews of all personal service and miscellaneous procurements and contracts, but that these reviews are not documented. Absent the appropriate documentation, we have no assurance that such reviews were indeed performed. Moreover, our audit recommended not only that these reviews be performed, but that they be documented as well. Therefore HHC officials should reconsider their decision to not implement our recommendation.
5. We are aware of the numerous repositories maintained throughout HHC. However, the contract information in each repository was limited and despite numerous requests, HHC officials could not provide relevant and complete contract information when requested. Further, we were told by HHC officials that the new GHX Contract Management System will not be able to capture information on all of HHC's contracts.
6. We recognize the critical nature many contracts play in ensuring proper patient care and addressing other life-safety concerns. In that regard, we are not suggesting that HHC should universally reduce the value of each and every contract by 10 percent, but rather that if management were to examine all contracts for necessity, the aggregate savings identified could amount to 10 percent of current contract values.
7. HHC has provided documentation illustrating actual and projected costs savings that have resulted from implementing the Breakthrough and Hiring Freeze initiatives. The report has been revised to reflect this information.
8. In preparing this report, we have chosen to not include Appendix G in the interest of brevity. This document is available for inspection upon request. Such requests should be made to the Office of the State Comptroller's Press Office at (518) 474-4015.