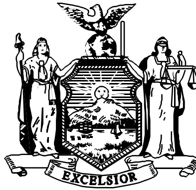
H. CARL McCALL
STATE COMPTROLLER



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STATE OF NEW YORK
OFFICE OF THE STATE COMPTROLLER

March 5, 1999

Mr. Dennis P. Whalen
Executive Deputy Commissioner
Department of Health
Corning Tower, Empire State Plaza
Albany, NY 12237

Re: Medical and Health Research Association of New York City, Inc.
Report 97-R-2

Dear Mr. Whalen:

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 audited the books and records of the Medical and Health Research Association of New York City, Inc. (MHRA), for the period of January 1, 1995 through December 31, 1996. Our audit related to reimbursements claimed by MHRA under contract C-011730, which had been awarded by the New York State Department of Health (DOH).

The objectives of our financial-related audit were to determine whether costs claimed by MHRA were allowable, had been documented adequately, and had been incurred for services funded under the contractual agreement we were auditing. To accomplish these objectives, we reviewed the contractual agreement, MHRA's books and records of revenues and expenditures, internal controls over charges to the contract, and the level of MHRA's compliance with contractual terms.

We conducted our audit in accordance with generally accepted government auditing standards. Such standards require that we plan and perform our audit to adequately assess those operations of MHRA that are included within our audit scope. Further, these standards require that we review and report on MHRA's internal control structure and its compliance with those laws, rules, and regulations that are relevant to MHRA's operations included in our audit scope. An audit includes examining, on a test basis, evidence supporting transactions recorded in the accounting records and applying such other auditing procedures as we consider necessary in the circumstances. An audit also includes assessing estimates, judgments, and decisions made by management. We believe that our audit provides a reasonable basis for our findings, conclusions,

and recommendations.

In planning and performing our audit procedures, we considered MHRA's internal control structure. Our consideration was limited to a preliminary review of this structure that would enable us to understand the control environment and the way in which transactions flowed through the systems supporting MHRA's claims. Because we did not intend to rely on the internal control structure in performing our work, our assessment did not extend beyond the preliminary review phase. Instead, we appropriately extended our substantive audit tests.

In conducting our audit, we performed tests of MHRA's compliance with certain terms of the contract. Our objective in performing these tests was to obtain reasonable assurance about the allowability of funds MHRA had received from DOH, not to provide an opinion on MHRA's overall compliance with such provisions.

The results of our tests indicate that, with respect to the items tested, MHRA complied in all material respects with the provisions referred to in the preceding paragraph, except as noted in Section B of this report. With respect to the items not tested, nothing came to our attention that caused us to believe that MHRA had not complied, in all material respects, with those provisions.

A. Background and Contract Terms

MHRA is a not-for-profit organization founded in 1957 to improve the health status and well-being of New Yorkers, with an emphasis on those who are at high risk and under served. MHRA provides health care services, operates demonstration projects, and conducts research programs. MHRA's administrative offices are in Manhattan, while its programs operate throughout New York City. In the fiscal year ended December 31, 1996, MHRA reported total revenues of $154.9 million, of which DOH's two largest grants accounted for $33.9 million. MHRA has a staff of about 1,000 employees.

The largest DOH-funded program is the Maternal and Child Health (MCH) Mini-Block Grant. The MCH grant includes three programs: the Maternity, Infant Care/Family Planning Project (MIC-FPP), the Pediatric Resource Centers (PRCs), and the Prenatal Diagnostic Laboratory (PDL). MIC-FPP offers comprehensive prenatal and family planning services, including medical, dental, nursing, and social work, at clinic sites throughout New York City. PRCs provide primary care to low-income, high-risk children and adolescents up to 18 years of age who live in high-need health areas. The PDL offers prenatal genetic screening, diagnosis, and counseling.

The scope of this audit focused on the MIC-FPP program. During the period from January 1, 1995 through December 31, 1996, DOH reimbursed MHRA $5,696,069 for claimed net expenditures under the MIC-FPP program. These represented program expenses that exceeded third-party revenues, primarily Medicaid. The contract budgets were structured according to line-item categories of expenditures, including salaries and fringe benefits, and expenses for other than personal services, such as consultant services, rent, supplies, and miscellaneous expenses.

B. **Results of Audit**

We tested and allowed the entire $5,696,069 claimed by MHRA under the MIC-FPP program portion of contract C-011730. In addition, as discussed below, we made some observations regarding the way MHRA had reported interest expense and the process by which it selected a consultant.

1. **Interest Expense**

Among the subcategories of miscellaneous expenses claimed under the audited contract were bank charges. MHRA claimed bank charges totaling $103,561 in 1995 and $71,940 in 1996 under the MIC-FPP program portion of the MCH grant. Most of these charges were interest expenses relating to bank loans; MHRA had obtained a line of credit for up to $2 million in 1994, to bridge the gap between the start of the MCH grant programs and the receipt of funds from DOH. MHRA also earned related interest income of $34,208 in 1995 and $32,727 in 1996. However, MHRA reported this interest income in the portion of the MCH grant programs dedicated to administrative costs (our audit was limited to the MIC-FPP program portion). We believe it would be more consistent to report the interest expense, together with the offsetting interest income, in the administrative component of the claim, rather than in the MIC-FPP program component of the claim.

DOH should consider revising the contract terms so that each expense category is matched with its respective funding source. For example, in the case of interest expense, the Federal Office of Management and Budget's Circular A-122 raises questions about the allowability of claimed interest expense under the grant. DOH and MHRA officials asserted that Medicaid regulations allow reimbursement of interest expense. Matching each expense category with its funding source would delineate more clearly which expenses are to be paid from State funds, and which are to be paid from third-party revenues. MHRA officials told us that if DOH implemented this revision in contract terms, it would be able to develop a system for allocating expenses to specific funding sources.

2. **Consultant Selection Process**

MHRA’s claims included consultant expenses, which are classified on MHRA’s accounting records as “Subcontract General” expenses. In June 1995 and May 1996, MHRA contracted with a firm to provide consulting services in substance abuse counseling. MHRA paid the firm $175,869 in 1995 and $157,692 in 1996 for these services.

We questioned the method by which the consulting firm was selected. MHRA’s internal procedures require vendors of goods and services to submit to competitive bidding. Furthermore, DOH requires contractors to comply with Federal administrative requirements for procurements exceeding $100,000. Contractors are supposed to document the basis for their vendor selections, and to justify the lack of competition when they do not obtain competitive bids.

However, MHRA officials explained that they select consultants based solely on their qualifications.

MHRA did not consider other vendors' qualifications or justify the lack of competition before awarding the 1995 and 1996 contracts to the substance abuse counseling consultant. Because it did not take these steps, there is no assurance that MHRA obtained these services from a responsible vendor at the lowest-possible cost. Both DOH and MHRA management should ensure that consultant contract awards comply with their respective policies. DOH officials indicated that they will inform MHRA about State and DOH policies that relate to the sub-contractual solicitation process, and will develop a procedure for ascertaining compliance prior to reimbursement. Officials told us that MHRA " . . . has revised and formalized its process for the awarding of subcontracts, and now expects competitive bids, except in very special circumstances. As a control, all subcontracts are reviewed and approved by the central MHRA contracts office, and payments are not allowed for contracts that have not been so reviewed. A fully revised policy statement on contracting is in final revision, and will be part of MHRA's policy and procedures manual."

Recommendations

1. *Report interest expense in the administrative component of the claim, and consider revising the contract terms to match expense categories with their respective funding sources.*

2. *Ensure that MHRA complies with DOH requirements for consultant contract awards.*

Major contributors to this report were Kenneth Spitzer, Debra Wolrich, Michael Miller, Aurora Caamano, and Jeremy Mack.

We would appreciate receiving your written response to the report recommendations within 30 days, indicating any actions you plan to take or have taken to implement them. We wish to thank the management and staff of the Medical and Health Research Association of New York City, Inc. and the Department of Health for the courtesies and cooperation extended to our auditors during this audit.

Very truly yours,

Frank J. Houston
Audit Director

cc: Robert L. King
Ellen Rautenberg
Joseph Giovannelli