



City of New York

OFFICE OF THE COMPTROLLER

Scott M. Stringer
COMPTROLLER



FINANCIAL AUDIT

Marjorie Landa

Deputy Comptroller for Audit

Audit Report on New York City Health +
Hospitals' Oversight of Its Auxiliaries

FP20-095A

June 15 , 2021

<http://comptroller.nyc.gov>



THE CITY OF NEW YORK
OFFICE OF THE COMPTROLLER
SCOTT M. STRINGER

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To the Residents of the City of New York:

My office audited the New York City's Health + Hospitals (H+H) to determine whether it implemented sufficient control procedures to effectively monitor the performance and fiscal activities of its certain auxiliary organizations that provide financial support for H+H through various fundraising activities (Auxiliaries). We audit City agencies such as H+H to increase accountability and to help ensure that funds are properly safeguarded and appropriately used.

The audit found that H+H did not implement sufficient oversight procedures to properly oversee its numerous Auxiliaries. Specifically, we found that H+H did not execute agreements with any of its Auxiliaries to govern their operations, including their fundraising activities and any other activities intended to enhance patient care. In addition, H+H did not enforce its operating procedure 10-20, dated November 1, 2010. H+H stated that it considered this operating procedure outdated and chose to no longer enforce it. Therefore, for Calendar Years 2018 through 2020, H+H did not have current operating policies for the Auxiliaries to follow. On April 19, 2021, H+H updated its operating procedure. However, during our scope period, no operating procedure was in effect and H+H had only the Auxiliaries' finalized financial statements as a possible source of detailed written information about their activities. The finalized financial statements did not, however, provide sufficient information since they enabled only a retrospective view of the entities and omitted key pieces of information, such as a review of the internal control structure. Moreover, submission of these financial statements was delayed at least a year and a half after the close of Calendar Year 2018.

To address these issues, the audit makes four recommendations to H+H. These include a recommendation that H+H execute written agreements with all Auxiliaries to provide the necessary guidance, restrictions, reporting requirements, and other critical terms. In addition, we recommend that H+H ensure the timely completion and release of all Auxiliaries' finalized financial statements. H+H should also expand its oversight procedures for reviewing finalized financial statements to include practices that would allow H+H to assess each Auxiliary's performance and identify areas of concern throughout the year.

The results of the audit have been discussed with H+H, and all comments received have been considered in preparing this report. The written responses received are attached to this report.

If you have any questions concerning this report, please e-mail my Audit Bureau at audit@comptroller.nyc.gov.

Sincerely,

A handwritten signature in black ink, appearing to read "Scott M. Stringer".

Scott M. Stringer

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THE CITY OF NEW YORK OFFICE OF THE COMPTROLLER FINANCIAL AUDIT

Audit Report on New York City Health + Hospitals' Oversight of Its Auxiliaries

FP20-095A

EXECUTIVE SUMMARY

The New York City Health and Hospitals Corporation, known as Health + Hospitals (H+H), operates the largest public healthcare system in the United States. Through multiple locations and facilities, H+H provides inpatient, outpatient, and home-based services in all five boroughs of the City. Among other things, H+H manages 11 acute care hospitals which provide a wide range of services, including trauma care, specialties services, and mental health services.

Funds used to support H+H's operations come from a variety of sources, including not-for-profit auxiliary organizations (Auxiliaries) established to assist hospital facilities in raising funds to be used for the procurement of goods and services and to enhance their patient care. H+H's current health system includes 22 Auxiliaries, including the Children of Bellevue, Metropolitan, and Queens Auxiliary.

The creation of Auxiliaries and their relationship to H+H is recognized in H+H's By-laws. The Auxiliaries are required to follow H+H's "Operating Procedure 10-20" and work closely with their associated hospital facilities to provide funds to enhance patient care. As reported in our previously released Audit Report on the Financial and Operating Practices of the Children of Bellevue, Inc. (FP19-100A), issued June 23, 2020, we found that the Children of Bellevue did not follow the latest version of H+H's Operating Procedure 10-20. Following that audit, our office commenced this audit to further review the extent of oversight H+H provided to its 22 Auxiliaries.

We conducted this audit to determine whether H+H implemented sufficient control procedures to effectively monitor the performance and fiscal activities of its Auxiliaries.

Audit Findings and Conclusions

The audit found that H+H did not implement sufficient oversight procedures to properly oversee its numerous Auxiliaries. Specifically, we found that H+H did not execute agreements with any of its Auxiliaries to govern their operations, including their fundraising activities and any other activities intended to enhance patient care. In addition, H+H did not enforce its Operating

Procedure 10-20, dated November 1, 2010. H+H stated that it considered this operating procedure outdated and chose to no longer enforce it. Therefore, for Calendar Years 2018 through 2020, H+H did not have current operating policies for the Auxiliaries to follow. On April 19, 2021, H+H updated its operating procedure relating to the Auxiliaries. However, during our scope period, no operating procedure was in effect, and H+H had only the Auxiliaries' finalized financial statements as a possible source of detailed written information about their activities. However, the finalized financial statements provided insufficient information since they only enabled a retrospective view of the entities and omitted key pieces of information, such as a review of the internal control structure. Moreover, submission of these financial statements were delayed at least a year and a half after the close of Calendar Year 2018. To date, only 18 of the 22 Calendar Year 2018 financial statements have been received by H+H.

Audit Recommendations

To address the issues raised by this audit, we make the following four recommendations to H+H.

H+H should:

- Execute written agreements with all Auxiliaries to provide the necessary guidance, restrictions, reporting requirements, and other critical stipulations;
- Review policies and procedures applicable to all Auxiliaries to ensure that:
 - each Auxiliary operates in an effective and efficient manner and in the best interest of the hospital facilities;
 - a sufficient control structure is emphasized and required as a component of each Auxiliary's operations; and
 - all operational and financial positions and major events of the supporting organizations are communicated to H+H in a timely manner;
- Ensure the timely completion and release of all Auxiliary finalized financial statements; and
- Expand the oversight procedures of reviewing finalized financial statements to include practices that would allow H+H to assess each Auxiliary's performance and identify areas of concern throughout the year.

Agency Response

In its response, H+H disagreed with two audit recommendations and stated that the other two recommendations have already been addressed. Specifically, H+H disagreed with the recommendations that it execute written agreements with all Auxiliaries, and that it expand oversight procedures to assess the Auxiliaries finances and performance. Regarding the recommendation to implement policies and procedures to more closely monitor the Auxiliaries, H+H stated it agreed a new operating procedure was needed but that it had already adopted one. H+H also stated that the recommendation that it ensure timely completion and release of financial statements had already been addressed. H+H further stated that it has "already taken many of the steps the Comptroller would recommend."

AUDIT REPORT

Background

H+H assumed the responsibility for the operation of New York City's municipal hospital system through an agreement with the City on July 1, 1970. As a public benefit corporation, H+H operates the largest public healthcare system in the United States. Through multiple locations and facilities, H+H provides inpatient, outpatient, and home-based services in all five boroughs of the City. Among other things, H+H manages 11 acute care hospitals which provide a wide range of services, including trauma care, specialties services, and mental health services.

Funds used to support H+H's operations come from a variety of sources, including Auxiliaries established to assist hospital facilities in raising funds to be used for the procurement of goods and services and to enhance their patient care. Some of H+H's Auxiliaries generate commission income from concessionaires (e.g., hospital gift shops, parking lots, etc.) operating within the hospital facilities. Auxiliaries also, in some cases, review hospital purchases (prior to reimbursement or funding the purchase) to ensure that such purchases are in-line with the Auxiliary's mission of enhancing patient care.

The creation of Auxiliaries and their relationship to H+H is recognized in H+H's By-laws. Among other things, H+H assists the Auxiliaries' operations by helping to coordinate monthly meetings between the Auxiliaries in which topics such as best practices may be discussed. In addition, although the Auxiliaries are independent non-profit organizations, H+H has required them to follow H+H's "Operating Procedure 10-20" and work closely with their associated hospital facilities to provide funds to enhance patient care. As reported in our previously released Audit Report on the Financial and Operating Practices of the Children of Bellevue, Inc. (FP19-100A), issued June 23, 2020, we found that the Children of Bellevue did not follow the latest version of H+H's Operating Procedure 10-20. Following that audit, our office commenced this audit to further review the extent of oversight H+H provided to its 22 Auxiliaries.

Recently, H+H has been taking steps to transition the Auxiliaries to a more independent self-sustaining role by removing commission income from the Auxiliaries' books and records and recording it as revenue to the associated hospital facilities instead.¹ H+H officials stated that the removal of commission income from the Auxiliaries' income statements would force them to cover their own operational expenses through other means. H+H's current health system consists of 22 Auxiliaries, including the Children of Bellevue, Metropolitan, and Queens Auxiliary.

Objective

The objective of this audit was to determine whether H+H implemented sufficient control procedures to effectively monitor the performance and fiscal activities of its Auxiliaries.

¹ Consistent with H+H officials' statement on March 30, 2021, that H+H is removing the commission income from the Auxiliaries' books and instead reporting it as income to the associated hospital facilities, we found that, in the case of 11 Auxiliaries, the total reported commission income dropped from \$1,055,354 to \$435,329 (58.75 percent) from Calendar Year 2018 to 2019.

Scope and Methodology Statement

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 the audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on the audit objectives. This audit was conducted in accordance with the audit responsibilities of the City Comptroller as set forth in Chapter 5, §93, of the New York City Charter.

The scope of this audit was January 1, 2018 to January 1, 2021. Please refer to the Detailed Scope and Methodology section at the end of this report for the specific audit procedures and detailed tests conducted during the course of this audit.

Discussion of Audit Results with H+H

The matters covered in this report were discussed with H+H officials during and at the conclusion of this audit. A preliminary draft report was sent to H+H and discussed with H+H officials at an exit conference held on May 4, 2021. On May 13, 2021, we submitted a draft report to H+H with a request for written comments. We received a written response from H+H on May 27, 2021.

In its response H+H disagreed with two of our four audit recommendations and stated that it has already addressed the findings associated with our other two recommendations. Specifically, H+H disagreed with the recommendations that it execute written agreements with all Auxiliaries, and that it expand oversight procedures to assess their performance throughout a given year and promptly address areas of concern.

Regarding the recommendation that it implement policies and procedures to ensure the Auxiliaries operate in the hospitals' best interests, maintain sufficient control structures for their operations, and timely communicate with H+H concerning their finances and major operational events, H+H stated it agreed a new operating procedure was needed but that it had already adopted one, and further explained that it had "conceded that its prior policies and documents suggested that H+H could and should supervise the Auxiliaries." H+H also stated that the recommendation that it ensure timely completion and release of financial statements has already been addressed by its changing accountants whose responsibilities relate to those financial statements.

H+H also claimed that the audit report "greatly overstated the scale on which the Auxiliaries operate, the amount of money they touch and the role they play." However, contrary to this assertion, the audit report simply stated the fact that H+H received funds from the Auxiliaries. Based on our review of the financial statements that 18 of the 22 Auxiliaries filed for Calendar Year 2019, those 18 Auxiliaries expended approximately \$5 million for patient programs at H+H hospitals that year. That level of fiscal activity is sufficient to require effective internal controls and proper oversight from H+H.

H+H further contended that it lacks the power to "supervise and regulate the Auxiliaries," because they are "legally independent not-for-profit corporations over which H+H has limited authority." However, the Auxiliaries' corporate status does not mean that they operate completely independently of H+H or that H+H has no ability to require them to implement appropriate control structures and activities. For example, H+H's current By-laws state, in part, "The [H+H] President shall authorize such Auxiliary organizations as deemed necessary to accomplish the objectives of the Corporation, and its facilities. The purposes and functions of such bodies shall be clearly

delineated.” Moreover, the Auxiliaries exist solely to provide and support services and programs for H+H facilities and patients. They operate within H+H hospitals, usually rent-free, raise funds on H+H’s behalf to support its activities, and do so subject to H+H’s approval. Consequently, the Auxiliaries need both internal controls and H+H oversight to ensure that the funds they raise for H+H are used properly and that their operations in H+H facilities are appropriate.

After carefully reviewing H+H’s response, we find no basis to alter any of the report’s findings or conclusions.

The full text of the H+H’s written response is included as an addendum to this report.

FINDINGS AND RECOMMENDATIONS

H+H did not implement sufficient oversight procedures to properly oversee its numerous Auxiliaries. Specifically, we found that H+H did not execute agreements with any of its Auxiliaries to govern their operations, including their fundraising activities and any other activities intended to enhance patient care. In addition, H+H did not have any policies available to its Auxiliaries to follow during Calendar Years 2018 through 2020; its most recent applicable policy guide, H+H Operating Procedure 10-20, dated November 1, 2010, had been deemed by H+H to be outdated and so no longer enforced. H+H had failed to establish updated policies and procedures to replace it. H+H updated this operating procedure on April 19, 2021, after the completion of this audit. Accordingly, H+H could only have relied on the finalized financial statements from the Auxiliaries as a potential means of obtaining detailed written information about their activities. However, these financial statements only provide a retrospective view of the entities and are missing key pieces of information, such as a review of the internal control structure in place, and so do not provide critical pieces of information. Moreover, these financial statements were delayed at least a year and a half after the close of Calendar Year 2018. To date, only 18 of the 22 Calendar Year 2018 financial statements have been received by H+H.

H+H Did Not Provide Sufficient Oversight of Its Auxiliaries

During Calendar Years 2018 through 2020, H+H did not implement any control procedures, in writing or in practice, to provide sufficient oversight of its 22 Auxiliary organizations and ensure that each organization was operating in a prudent manner and in the best interest of its associated hospital facilities. Throughout the audit, H+H officials asserted that the Auxiliaries are independent third-party organizations and thus are not under the purview of H+H. However, the Auxiliaries provide the hospitals, and by extension H+H, continuous fundraising and, in some instances, a review of purchases for the purpose of their reimbursing the hospitals for those expenses. In addition, the majority of Auxiliaries are permanently situated rent-free in H+H hospital facilities. Consequently, the relationship, scope of services, and critical operational procedures should be outlined in written agreements and procedures.

According to Article 12 of H+H's By-laws, "The President shall authorize such Auxiliary organizations as deemed necessary to accomplish the objectives of the Corporation, and its facilities. The purposes and functions of such bodies shall be clearly delineated." However, H+H did not execute any operating agreements or current governing policies and procedures, nor did it conduct sufficient practices to ensure each Auxiliary appropriately accomplished its objectives as stipulated in the above requirement.

H+H Does Not Have Written Agreements with Its Auxiliaries

H+H did not execute written agreements with any of its 22 Auxiliary organizations. According to Article 12 of H+H's By-laws, the purposes and functions of the Auxiliaries shall be clearly defined. However, H+H did not execute any third-party agreements with its Auxiliaries to establish the Auxiliaries' specific purposes and functions as required. Further, in direct contravention of the plain language of its By-laws, H+H disclaims any responsibility for oversight of its Auxiliaries.

Given that the Auxiliaries were created and operate solely to fundraise and assist H+H hospital facilities, it is crucial that H+H, as an oversight agency for the Auxiliaries' associated hospital facilities, establishes the relationship structure and responsibilities of the Auxiliaries, hospital facilities, and H+H itself. Without a written document that clearly sets forth appropriate operational

requirements for each entity, H+H's ability to ensure that agreed-upon terms of operations are followed is greatly impaired. In addition, without each party's respective rights, responsibilities, and liabilities being set forth in writing, H+H and the City may be exposed to additional risks of litigation. This risk is increased for those Auxiliaries operating specifically in the name of H+H.

H+H Did Not Implement Current Policies and Procedures to Govern Its Auxiliaries

H+H did not implement current policies and procedures needed to provide sufficient and consistent guidance across its 22 Auxiliaries for Calendar Years 2018 through 2020. During our previous audit of Children of Bellevue, we requested all H+H policies and procedures pertinent to Auxiliaries. Children of Bellevue officials provided Operating Procedure 10-20, dated November 1, 2010. H+H officials confirmed that this policy was the only H+H policy that the Auxiliaries were required to follow. Upon review of Operating Procedure 10-20, we found that the policy included specific requirements for its Auxiliaries, including policies governing their engagement activities to enhance patient care, and prohibiting certain expenses and activities that did not align with the Auxiliaries' mission. The policy further stated that "[e]ach Auxiliary shall prepare, at a minimum, a quarterly financial statement of income and expenditures. Copies of this statement shall be submitted within 30 days of the reporting period to the facility's Executive Director and Chief Financial Officer."

Contrary to the requirements of Operating Procedure 10-20, we found that H+H officials did not receive or review the required financial reports. When questioned about this non-compliance, H+H officials asserted that the copy of Operating Procedure 10-20 initially provided was "old and outdated" and that a "draft" policy had replaced it on the intranet as of February 19, 2019. However, H+H was unable to finalize this procedure until April 19, 2021, well after the audit scope period. Prior to this issuance, the Auxiliaries operated without any enforced H+H policies and procedures governing their operations.

Due to the lack of formal, updated policies and procedures, H+H could not provide reasonable assurance that sufficient controls were in place and that the Auxiliaries were functioning in a fiscally and operationally appropriate manner. H+H's ability to oversee the Auxiliaries' operations was significantly impaired without any written requirements for periodic financial and operational reports. Although H+H contends that the Auxiliaries are independent third-party organizations, the fact that many Auxiliaries operate under the H+H brand, exist solely to fundraise for patient care to H+H facilities, and even occupy office space in H+H facilities, supports the need for H+H oversight and the implementation of current policies and procedures for the 22 Auxiliaries.

Absent Current Oversight Procedures, H+H Could Not Effectively Oversee Its Auxiliaries' Operations

We found that H+H did not implement any oversight procedures to assess the performance and operations of the Auxiliaries during the audit scope period and thus, could not have effectively overseen the Auxiliaries. Although H+H officials could have potentially reviewed the Auxiliaries' finalized financial statements, these alone would not have provided sufficient information with which H+H could have adequately overseen their operations.² To begin with, the Auxiliaries' financial statements are not finalized until months after the close of the calendar year and thus would not have been available to enable H+H to understand the Auxiliaries' current financial

² H+H officials stated that they were unsure of who was actually reviewing the financial statements of the H+H Auxiliaries, if anyone.

position, which is necessary for H+H to provide guidance to them in a timely manner. Furthermore, the finalized financial statements do not provide any opinion or review of the internal control structure of the Auxiliaries. When we brought these concerns to the attention of H+H officials, they stated that the monthly meetings between the Auxiliaries that H+H coordinates is an occasion where topics such as best practices could be discussed. However, participation in the meetings is optional, thus it cannot be considered an effective oversight mechanism.

Further exacerbating the inadequate retrospective oversight structure during the audit scope period, H+H was unable to ensure the timely completion and issuance of its Auxiliaries' finalized financial statements for Calendar Year 2018. On April 4, 2019, we submitted our first request for Calendar Year 2018 finalized financial statements. In response, H+H officials stated that the finalized financial statements would be available in July of 2019. After repeated requests and inquiries about the statements, H+H and officials from one of the 22 Auxiliaries, Children of Bellevue, stated that the CPA firm retained to finalize financial statements for all of the Auxiliaries had undergone a merger with another firm and therefore none of the 2018 audits for the 22 Auxiliaries were completed.³ On March 23, 2020, H+H engaged a new firm to conduct the 2018 audits of the Auxiliaries' financial statements. It was not until June of 2020 that H+H provided us with finalized financial statements for 5 of its 22 Auxiliaries, with some of the additional statements provided at various points in time thereafter. As of March 16, 2021, we had received the 2018 finalized financial statements for 18 of 22 Auxiliaries.⁴

It is inadequate for H+H to have only finalized financial statements and voluntary attendance at group meetings as its only resources with which to fulfill its oversight responsibilities, especially since the financial statements are prepared considerably after the close of the calendar year. Moreover, the extensive delays in the issuance of the Calendar Year 2018 finalized financial statements will render H+H's eventual review ineffective since H+H is unable to monitor the Auxiliaries in real time.

In order to provide sufficient oversight of the Auxiliaries, H+H should implement procedures that allow it and the associated hospital facilities to be informed of financial and operational events as they occur or soon thereafter. Due to the absence of applicable policies and procedures during our scope period and its failure to execute and maintain an operating agreement with its Auxiliaries, and the ineffective practice of retroactively reviewing finalized financial statements, we found that H+H failed to provide adequate oversight of its Auxiliaries.

³ H+H has coordinated, directed, and funded these audits on behalf of the Auxiliaries.

⁴ H+H officials stated that the issuance of the Auxiliaries' financial statements was further delayed by COVID-19 pandemic issues.

RECOMMENDATIONS

H+H should:

1. Execute written agreements with all Auxiliaries to provide the necessary guidance, restrictions, reporting requirements, and other critical stipulations;

H+H Response: “H+H disagrees that it is practical or useful to make agreements with each of 22 Auxiliaries. Instead, H+H adopted a new Operating Procedure (OP) that establishes conditions for the Auxiliaries to receive H+H’s cooperation in its operations.”

Auditor Comment: We do not agree with H+H’s assertion that its standard operating procedure makes written agreements unnecessary. As stated in H+H’s By-laws, “the purposes and functions of [the Auxiliaries should] be clearly delineated.” Given that the 22 Auxiliaries operate independently of one another, at different H+H facilities, raising funds to enhance different patient programs, a single standard operating procedure cannot by itself properly delineate each Auxiliary’s individual functions, services, and deliverables. Written agreements can help strengthen the control environment in which each Auxiliary authorized by H+H operates. We therefore urge H+H to reconsider and implement this recommendation.

2. Review and implement comprehensive policies and procedures applicable to all Auxiliaries to ensure that:
 - a. each Auxiliary operates in an effective and efficient manner and in the best interest of the hospital facilities;
 - b. a sufficient control structure is emphasized and required as a component of each Auxiliary’s operations; and
 - c. all operational and financial positions and major events of the supporting organizations are communicated to H+H in a timely manner;

H+H Response: “H+H agrees that a new OP was needed but has already adopted one. H+H disagrees that the new OP should establish tighter controls over the Auxiliaries, given the previously stated legal independence of the Auxiliaries. Instead, H+H adopted a new OP that better defines our relationships with the Auxiliaries and establishes conditions for their fundraising in the name of H+H or our facilities. This reflects the fact that the Auxiliaries are independent corporations whose internal operations should not be regulated by H+H.”

Auditor Comment: We are pleased that H+H has recently adopted a new operating procedure. However, it did so only after several years of its not following or enforcing its then-existing operating procedure. For the reasons outlined earlier, we reiterate the need for and importance of a sound internal control structure and transparency for the Auxiliaries operating in H+H facilities, all of which should be clearly spelled out in H+H’s operating policy. H+H’s position that the Auxiliaries operating in its facilities and pursuant to its authorization are not subject to its authority and oversight is contradicted by H+H’s By-laws. We urge H+H to reconsider its position and fully implement this recommendation, including its components relating to internal control and communication requirements for Auxiliaries.

3. Ensure the timely completion and release of all Auxiliary finalized financial statements; and

H+H Response: “As we have explained previously both in writing and verbally, the delay in the completion of the financial statements was an aberration due to an unexpected takeover of the prior CPA firm – an occurrence that was out of H+H’s control – and the pandemic. We have discontinued our relationship with the CPA firm that caused these problems and brought in a new, more responsive CPA partner.”

Auditor Comment. We are pleased that H+H has taken steps to ensure the timely completion and release of the Auxiliaries’ finalized financial statements. While the delay may be due in part to the issues cited in H+H’s response, it was more than a year after the close of Calendar Year 2018 before H+H acted and engaged another CPA firm to audit or finalize the tardy financial statements. H+H should exercise increased diligence to ensure that the professionals it engages perform the agreed-upon services in a timely manner.

4. Expand the oversight procedures of reviewing finalized financial statements to include practices that would allow H+H to assess each Auxiliary’s performance and identify areas of concern throughout the year.

H+H Response: “H+H strenuously disagrees with this recommendation consistent with the legal independence of the Auxiliaries from H+H. The conceptual difference in how the Draft Report views H+H’s relationship with the Auxiliaries and how the law and H+H view the relationship is the theme that runs throughout the Draft Report. As has been stated previously and now in several contexts, H+H believes that it is more legally and operationally appropriate for it to establish more of an arm’s length relationship with its Auxiliaries for several reasons.”

Auditor Comment. We do not agree with H+H’s contention that an arms-length relationship with the Auxiliaries operating in H+H’s facilities somehow precludes or is inconsistent with H+H’s ability to obtain reasonable assurance that they operate for the purposes H+H’s By-laws permit and with proper fiscal controls. Any financial irregularities in the Auxiliaries’ operations can potentially have a negative impact on H+H because the Auxiliaries raise funds for H+H and exist solely to support its hospitals’ programs and services. Accordingly, we urge H+H to reconsider and implement this recommendation.

DETAILED SCOPE AND METHODOLOGY

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 objectives. This audit was conducted in accordance with the audit responsibilities of the City Comptroller as set forth in Chapter 5, §93, of the New York City Charter.

The scope of this audit was January 1, 2018 to January 1, 2021. To gain an understanding of H+H's oversight responsibilities, we reviewed H+H's By-Laws, H+H's Operating Procedure No. 10-20 Auxiliaries dated November 1, 2010 and the draft version of H+H's Operating Procedure No. 10-20 Auxiliaries dated February 19, 2019,⁵ and identified the specific requirements per these policies. We conducted a walkthrough with H+H's officials to determine the financial and operational oversight roles and relationships among H+H, H+H's hospital facilities, and Auxiliaries, and whether specific policies and procedures were in place. We also conducted walkthroughs with the Controller, Director, Internal Audit Manager, and other officials from H+H to understand H+H's bookkeeping services provided to three H+H Auxiliaries. We researched online websites of H+H Auxiliaries to ascertain whether H+H Auxiliaries operate under the title of H+H.

To assess and understand H+H Auxiliaries' financial operations, we obtained and reviewed H+H's list of 22 Auxiliaries and matched those names listed against our online research of H+H Auxiliaries' 990 Tax Returns and audited financial statements. We further reviewed those documents against the latest available document request of the finalized financial statements from H+H for Calendar Year 2018 to date of review (September 9, 2020). We also continually requested and reviewed H+H Auxiliaries' financial statements, including from CoB, for Calendar Year 2018 to determine whether oversight was provided in a timely manner.

We further analyzed the available H+H Auxiliaries' 990 Tax Returns and audited financial statements for Calendar Year 2018 for various risk assessments. As a result of the risk assessment, we judgmentally sampled three Auxiliaries as follows: Metropolitan Hospital Auxiliary (Metropolitan Auxiliary) which reported the highest revenues and expenses (resulted in the highest net loss), Woodhull Medical and Mental Center Auxiliary (Woodhull Auxiliary) which reported the second highest net loss, and Queens Hospital Center Auxiliary (Queens Auxiliary) which did not have any financial information for Calendar Years 2017 and 2018.

To obtain an understanding for each of the three sampled H+H Auxiliaries' operations and relationships between H+H Auxiliaries and their respective hospital facilities, we conducted walkthroughs with Metropolitan Auxiliary officials, Woodhull Auxiliary officials, and Queens Auxiliary officials along with the various respective hospital facilities officials, including the Auxiliary Liaison. Additionally, we obtained and reviewed the selected three H+H's Auxiliaries' Board Minutes, By-laws, abstracted the relevant section of the documents, and reviewed other relevant documents.

To determine whether all parties complied with the Operating Procedure 10-20, we requested the corresponding quarterly statements and related correspondence. We further requested all current

⁵ The draft version of H+H's Operating Procedure No. 10-20 Auxiliaries dated February 19, 2019 was obtained from CoB's audit.

policies and procedures based on assertions made by H+H officials such that the policy was outdated and a draft policy was available.

The results of the above review provide a reasonable basis to assess and to support our findings and conclusions about H+H's oversight of its Auxiliaries.



Mitchell Katz
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May 26, 2021

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RE: Audit Report on New York City Health + Hospitals' Oversight of Its Auxiliaries

Dear Ms. Landa,

Thank you for the opportunity to respond to your Audit Report FP20-095A, NYC Health + Hospitals Oversight of Its Auxiliaries.

Attached is our response to the Findings and Recommendations outlined within the report.

If you have any questions regarding the response, please contact Christopher Telano, Chief Internal Auditor/Sr. AVP at 646.458.5623.

Best regards,

A handwritten signature in blue ink that reads "Mitchell Katz".

Mitchell Katz, MD

**NYC HEALTH + HOSPITALS COMMENTS ON
DRAFT FINANCIAL AUDIT REPORT DATED MAY 13, 2021 ON
NEW YORK CITY HEALTH + HOSPITALS'
OVERSIGHT OF ITS AUXILIARIES**

New York City Health and Hospitals Corporation (H+H) respectfully offers the comments set forth below on the NYC Comptroller's Draft Financial Audit Report dated May 13, 2021 on New York City Health + Hospitals' Oversight of its Auxiliaries.

SUMMARY OF COMMENTS MADE ON PRELIMINARY DRAFT REPORT

H+H offered detailed responses and comments on the Comptroller's Preliminary Draft Report and has made many of these points verbally during our virtual meetings with the Comptroller's office. Unfortunately, the Comptroller has not acknowledged or incorporated our responses into its processes or drafts. In the interest of efficiency and consistency, we will again, briefly summarize the main points made and refreshed again as follows:

- H+H challenged the Report's assumption that H+H should, and has the power to, supervise and regulate the Auxiliaries. H+H maintained that the Auxiliaries are legally independent not-for-profit corporations over which H+H has limited authority and that it is inappropriate for H+H to assert the level of control envisioned by the Report.
- While H+H conceded that its prior policies and documents suggested that H+H could and should supervise the Auxiliaries, starting three years ago H+H initiated changes to its rules and practices to recognize the independence of the Auxiliaries. The COVID-19 epidemic delayed the full adoption and implementation of its new rules but even during that interim, important steps towards the new rules were taken and now they are final.
- H+H stated that the Report greatly overstated the scale on which the Auxiliaries operate, the amount of money they touch and the role they play. In fact, the Auxiliaries deal with very small amounts of money and have no influence over H+H operations.

RESPONSE TO DRAFT REPORT RECOMMENDATIONS

The Draft Report makes four recommendations. The four recommendations and H+H's response to each one follows:

1. Execute Written Agreements with Each Auxiliary. The Draft Report recommends that H+H make written agreements with each Auxiliary. H+H disagrees that it is practical or useful to make agreements with each of 22 Auxiliaries. Instead, H+H adopted a new Operating Procedure (OP) that establishes conditions for the Auxiliaries to receive H+H's cooperation in its operations. This achieves the policy goals that might be achieved by having distinct agreements with each Auxiliary. We believe a clear statement of the basis for the activities of all Auxiliaries will more efficiently serve as well as a set of nearly identical agreements.

2. Policies and procedures should be implemented. The Draft Report proposes that H+H adopt a new set of policies and procedures to more closely control the Auxiliaries. H+H agrees that a new OP was needed but has already adopted one. H+H disagrees that the new OP should establish tighter controls over the Auxiliaries, given the previously stated legal independence of the Auxiliaries. Instead, H+H adopted a new OP that better defines our relationships with the Auxiliaries and establishes conditions for their fundraising in the name of H+H or our facilities. This reflects the fact that the Auxiliaries are independent corporations whose internal operations should not be regulated by H+H. We formalized this OP at the same time as the Draft Report was being finalized, and it has been provided to the Comptroller. As explained to the Comptroller, H+H would have done this a year ago were it not for the pandemic that necessarily consumed our resources and attention. Moreover, as also explained previously, H+H started to implement important changes outlined in the new OP as early as 2018 by starting to redirect concession income away from the Auxiliaries to the Hospitals and creating a centralized convening body to share information and best practices. We previously shared information and materials supporting these changes, but the Comptroller has declined to incorporate them into its findings.

3. Ensure Timely Completion and Release of Financial Statements. The Draft Report urges H+H to make sure the financial reports of each Auxiliary are completed on schedule. The Comptroller is already aware of the unusual circumstances that contributed to this one-time tardiness and knows that H+H has already taken steps to correct this problem. As we have explained previously both in writing and verbally, the delay in the completion of the financial statements was an aberration due to an unexpected takeover of the prior CPA firm – an occurrence that was out of H+H’s control – and the pandemic. We have discontinued our relationship with the CPA firm that caused these problems and brought in a new, more responsive CPA partner. As a result, nine of the twenty-two financial statements for CY2020 have already been issued, indicating the improved timeliness of the reports. This recommendation has thus already been addressed, both by a repeated explanation of the situation and by H+H having taken corrective action by the retention of a new CPA firm which has already greatly improved the timeliness of the preparation of the financial statements.

4. Expand Oversight Procedures. The final recommendation states that oversight above and beyond the review of the financial statements needs to be implemented. H+H strenuously disagrees with this recommendation consistent with the legal independence of the Auxiliaries from H+H. The conceptual difference in how the Draft Report views H+H’s relationship with the Auxiliaries and how the law and H+H view the relationship is the theme that runs throughout the Draft Report. As has been stated previously and now in several contexts, H+H believes that it is more legally and operationally appropriate for it to establish more of an arm’s length relationship with its Auxiliaries for several reasons. First, it is inappropriate for H+H to regulate the governance of independent not for profit corporations whose boards assume fiduciary obligations owed to their own organizations and not to H+H. The new OP establishes these principles. Second, in view of the small amounts of money raised by the Auxiliaries, their limited role and their vast quantity, the time and effort required to closely control all 22 Auxiliaries is unwarranted and out of scale. For an organization with as challenging and critical a mission as H+H has, it is unsustainable to direct so many resources to organizations formed to support H+H. Third and accordingly, the focus of H+H’s relationship with its Auxiliaries should be shifted from how H+H manages and supports the Auxiliaries to how the Auxiliaries can support H+H, as is their mission. Disengaging from matters of Auxiliary governance is part of that shift. Withdrawing the unqualified commitment of H+H staff support of the Auxiliaries is related. Imposing a requirement that the Auxiliaries each produce a net cash benefit to an H+H hospital is yet another part. Unfortunately, the Draft Report exclusively focuses on H+H’s prior dealings with its Auxiliaries and takes no account of the changes set out in its new OP and that have been phased into Auxiliary operations

over the last several years, nor does it acknowledge the significance of the legal independence of the Auxiliaries. Thus, H+H can agree with many of the Draft Reports findings as to the past but object to them as being inapplicable to H+H's current state. We are pleased that we have already taken many of the steps the Comptroller would recommend, all of our own volition, and would be gratified by the Comptroller's recognition of this hard work.