

Department of Health and Human Services

**OFFICE OF  
INSPECTOR GENERAL**

**LINK2HEALTH SOLUTIONS, INC.,  
BUDGETED COSTS THAT WERE NOT  
APPROPRIATE AND CLAIMED SOME  
UNALLOWABLE HURRICANE SANDY  
DISASTER RELIEF ACT FUNDS**

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for Audit Services

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A-02-14-02013

# ***Office of Inspector General***

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## EXECUTIVE SUMMARY

*Link2Health Solutions, Inc., a Substance Abuse and Mental Health Services Administration grantee, budgeted costs that were not appropriate and claimed approximately \$50,000 in unallowable Hurricane Sandy disaster relief funding.*

### WHY WE DID THIS REVIEW

The Disaster Relief Appropriations Act of 2013 (Disaster Relief Act) in part provided the Department of Health and Human Services (the Department) approximately \$800 million in funding for disaster response and recovery and other expenses directly related to Hurricane Sandy. Of this amount, the Substance Abuse and Mental Health Services Administration (SAMHSA) received \$7.5 million for “behavioral health treatment, crisis counseling, and other related helplines, and for providing support to New York and New Jersey residents dislocated by Hurricane Sandy.” SAMHSA awarded \$2.1 million of these Disaster Relief Act funds to Link2Health Solutions, Inc. (L2HS), for the implementation and operation of the Hurricane Sandy Disaster Distress Helpline (Sandy Helpline).

The Department’s Office of Inspector General (OIG) was mandated to perform oversight, accountability, and evaluation of programs, projects, or activities supported with Disaster Relief Act funds. This review is part of OIG’s Disaster Relief Act oversight activities.

The objectives of this review were to determine whether L2HS’s Disaster Relief Act budgeted costs were appropriate and L2HS’s claimed costs were allowable in accordance with Federal requirements.

### BACKGROUND

Hurricane Sandy made landfall on October 29, 2012, devastating portions of the mid-Atlantic and northeastern United States and leaving victims of the storm and their communities in need of disaster relief aid. On January 29, 2013, the President signed into law the Disaster Relief Act, which, in part, provided the Department approximately \$800 million in funding for disaster response and recovery and other expenses directly related to Hurricane Sandy. After sequestration, the Department received \$759.5 million in Disaster Relief Act funding, \$7.5 million of which was allocated to SAMHSA.

For the period September 30, 2013, through September 29, 2015, SAMHSA awarded Disaster Relief Act funds to supplement the L2HS-operated National Disaster Distress Helpline to help individuals affected by Hurricane Sandy. Specifically, in September 2013, nearly 1 year after Hurricane Sandy made landfall, SAMHSA awarded \$2.1 million in Disaster Relief Act funding to L2HS for the implementation and operation of the Sandy Helpline, which was developed to provide crisis response services to individuals impacted by Hurricane Sandy for 2 years. L2HS used these funds to add a telephone menu option to the National Disaster Distress helpline, which was staffed with trained crisis counselors who specialized in providing assistance to individuals, families, and communities located within the States that received disaster

declarations following Hurricane Sandy. L2HS also offered individuals affected by Hurricane Sandy a text messaging option through which they could receive crisis counseling services. For the 2-year grant period, L2HS estimated that the Sandy Helpline would provide support to individuals impacted by Hurricane Sandy through 4,472 contacts (phone calls and text messages) during the first year of the grant and 4,472 contacts during the second year. As of June 30, 2014, 9 months after implementation, the Sandy Helpline had received a total of 254 contacts.

Title 45, part 74, of the Code of Federal Regulations establishes uniform administrative requirements governing Department grants and agreements awarded to nonprofit organizations. As a nonprofit organization in receipt of Federal funds, L2HS must comply with Federal cost principles in 2 CFR part 230, *Cost Principles for Non-Profit Organizations*. These cost principles require that grant expenditures submitted for Federal reimbursement be reasonable, allocable, and otherwise allowable.

## **HOW WE CONDUCTED THIS REVIEW**

We reviewed budgeted costs totaling \$2.1 million included in L2HS's request for Disaster Relief Act funds. We also reviewed \$393,691 in Disaster Relief Act funding that L2HS claimed for the implementation and operation of the Sandy Helpline for the 9-month period September 30, 2013, through June 30, 2014.

## **WHAT WE FOUND**

L2HS submitted detailed Disaster Relief Act budgets to SAMHSA that were not appropriate by the time L2HS applied for Year 2 funding. Specifically, L2HS based its Year 2 budgeted costs on its initial estimated number of contacts and did not adjust these costs to reflect the substantially lower actual number of contacts received during Year 1 of the grant period. In addition, L2HS improperly claimed some Disaster Relief Act costs that did not comply with applicable Federal requirements. Of the \$393,691 in costs that we reviewed, \$333,694 complied with applicable Federal requirements. However, L2HS claimed \$59,997 in unallowable Disaster Relief Act costs because it (1) based salaries, fringe benefits, and other costs on budgeted employee hours rather than actual employee hours; (2) claimed costs incurred before the start of the grant; and (3) claimed duplicate indirect costs. Based on inquiries we made during our fieldwork, L2HS adjusted the direct cost base it used to calculate its indirect costs, which reduced L2HS's claimed indirect costs by \$5,175.

On September 9, 2014, during our fieldwork, SAMHSA began the process for L2HS to relinquish its Disaster Relief Act funding because of low contact volume. SAMHSA also revised the Notice of Award to reflect the deobligation of Year 2 funds and specify that the end of the grant period was September 29, 2014. Therefore, we have no recommendation related to L2HS's Year 2 budgeted costs.

## **WHAT WE RECOMMEND**

We recommend that SAMHSA ensure that L2HS refunds \$54,822 to the Federal Government for unallowable actual costs.

## **LINK2HEALTH SOLUTIONS, INC., COMMENTS AND OUR RESPONSE**

In written comments on our draft report, L2HS acknowledged that it billed budgeted personnel costs rather than actual costs and indicated that it refunded \$42,985 to SAMHSA for these unsupported costs. In addition, L2HS officials stated that they had inadvertently claimed salaries and fringe benefits incurred before the start of the Hurricane Sandy grant and that they would work with SAMHSA to refund these costs. Finally, the officials disagreed with our findings related to Year 2 budgeted costs, property insurance, and duplicate costs.

After reviewing L2HS's comments and supporting documentation, we maintain that our findings and recommendation are valid.

## **SUBSTANCE ABUSE AND MENTAL HEALTH SERVICES ADMINISTRATION COMMENTS AND OUR RESPONSE**

In written comments on our draft report, SAMHSA concurred with our findings that L2HS overstated salaries, fringe benefits, and other costs; claimed costs incurred before the start of the grant; and incorrectly claimed property insurance costs as a direct cost. SAMHSA disagreed with our findings related to L2HS's Year 2 budgeted costs and duplicate indirect costs.

After reviewing SAMHSA's comments, we maintain that our findings and recommendation are valid. However, we revised our finding related to duplicate indirect costs and removed the associated dollars from our recommendation because L2HS adjusted these costs as a result of our audit.

## TABLE OF CONTENTS

INTRODUCTION .....	1
Why We Did This Review .....	1
Objectives .....	1
Background .....	1
Substance Abuse and Mental Health Services Administration.....	1
Link2Health Solutions, Inc. ....	2
Hurricane Sandy Disaster Distress Helpline.....	2
Federal Requirements .....	3
How We Conducted This Review.....	3
FINDINGS .....	4
Budgeted Costs Were Not Appropriate .....	4
Unallowable Costs .....	5
Unsupported Salaries, Fringe Benefits, and Other Costs.....	5
Unallocable Costs .....	5
Duplicate Indirect Costs.....	6
RECOMMENDATION .....	6
LINK2HEALTH SOLUTIONS, INC., COMMENTS .....	6
OFFICE OF INSPECTOR GENERAL RESPONSE .....	7
SUBSTANCE ABUSE AND MENTAL HEALTH SERVICES ADMINISTRATION COMMENTS .....	7
OFFICE OF INSPECTOR GENERAL RESPONSE .....	7
APPENDIXES	
A: Audit Scope and Methodology .....	9
B: Link2Health Solutions, Inc., Comments .....	11
C: Substance Abuse and Mental Health Services Administration Comments .....	15

## INTRODUCTION

### WHY WE DID THIS REVIEW

Hurricane Sandy made landfall on October 29, 2012, devastating portions of the mid-Atlantic and northeastern United States and leaving victims of the storm and their communities in need of disaster relief aid. On January 29, 2013, the President signed into law the Disaster Relief Appropriations Act of 2013, P.L. No. 113-2 (Disaster Relief Act), which, in part, provided the Department of Health and Human Services (the Department) approximately \$800 million in funding for disaster response and recovery and other expenses directly related to Hurricane Sandy.<sup>1</sup> After sequestration, the Department received \$759.5 million in Disaster Relief Act funding; \$7.5 million of which was allocated to the Substance Abuse and Mental Health Services Administration (SAMHSA). SAMHSA awarded \$2.1 million of the Disaster Relief Act funds it received to Link2Health Solutions, Inc. (L2HS), for the implementation of the Hurricane Sandy Disaster Distress Helpline (Sandy Helpline).

The Department's Office of Inspector General (OIG) was mandated to perform oversight, accountability, and evaluation of programs, projects, or activities supported with Disaster Relief Act funds. This review is part of OIG's Disaster Relief Act oversight activities.

### OBJECTIVES

Our objectives were to determine whether L2HS's Disaster Relief Act budgeted costs were appropriate and L2HS's claimed costs were allowable in accordance with Federal requirements.

### BACKGROUND

#### Substance Abuse and Mental Health Services Administration

Within the Department, SAMHSA is the agency that leads public health efforts to advance the behavioral health of the Nation. SAMHSA's mission is to reduce the impact of substance abuse and mental illness on America's communities. SAMHSA received \$7.5 million in Disaster Relief Act funds and allocated the funds to the following programs:

- Behavioral Health Treatment—\$2.2 million.
- National Disaster Distress Helpline—\$2.1 million.
- Teacher Resiliency Training—\$1.5 million.
- Crisis Counseling & Treatment for Relocated Survivors and Responders—\$900,000.

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<sup>1</sup> The Budget Control Act of 2011 (P.L. No. 112-25) reduced the Hurricane Sandy disaster relief funds the Department received from approximately \$800 million to \$759.5 million. The law imposed automatic spending cuts, known as "sequestration," designed to reduce the Federal deficit. The Office of Management and Budget determined that disaster relief funds were subject to sequestration, and as a result, disaster relief funds received by the Department were reduced by approximately \$40.5 million.

- Restoration of Medication Assisted Treatment of Opioid Addiction—\$800,000.

### **Link2Health Solutions, Inc.**

L2HS, a subsidiary of the Mental Health Association of New York City (MHA-NYC), is a nonprofit organization designed to improve services for individuals suffering from mental illness and other physical or behavioral disorders through the utilization of advanced communication and information technology.

### **Hurricane Sandy Disaster Distress Helpline**

On September 30, 2013, nearly 1 year after Hurricane Sandy made landfall, SAMHSA awarded Disaster Relief Act funds to supplement the L2HS-operated National Disaster Distress Helpline for 2 years to help individuals affected by Hurricane Sandy. Specifically, for the period September 30, 2013, through September 29, 2015, SAMHSA awarded \$2.1 million in Disaster Relief Act funding to L2HS for the implementation and operation of the Sandy Helpline. The helpline, which went into operation on October 1, 2013, was developed to provide crisis response services, 24 hours a day, 7 days a week, in response to urgent and emerging behavioral health needs of individuals impacted by Hurricane Sandy. L2HS used these funds to add a telephone menu option to the existing National Disaster Distress Helpline to connect to trained crisis counselors who specialized in providing assistance to individuals, families, and communities located within the States that received disaster declarations following Hurricane Sandy. L2HS also offered individuals affected by Hurricane Sandy a text messaging option through which they could receive crisis counseling services.

On September 13, 2013, L2HS submitted to SAMHSA an initial application for a total of \$2.1 million in Disaster Relief Act funding. The initial application contained detailed budgets for each year of the grant that were based on estimates that the Sandy Helpline would provide support to individuals impacted by Hurricane Sandy through 4,472 contacts (phone calls and text messages) during the first year of the grant and 4,472 contacts during the second year of the grant.<sup>2</sup>

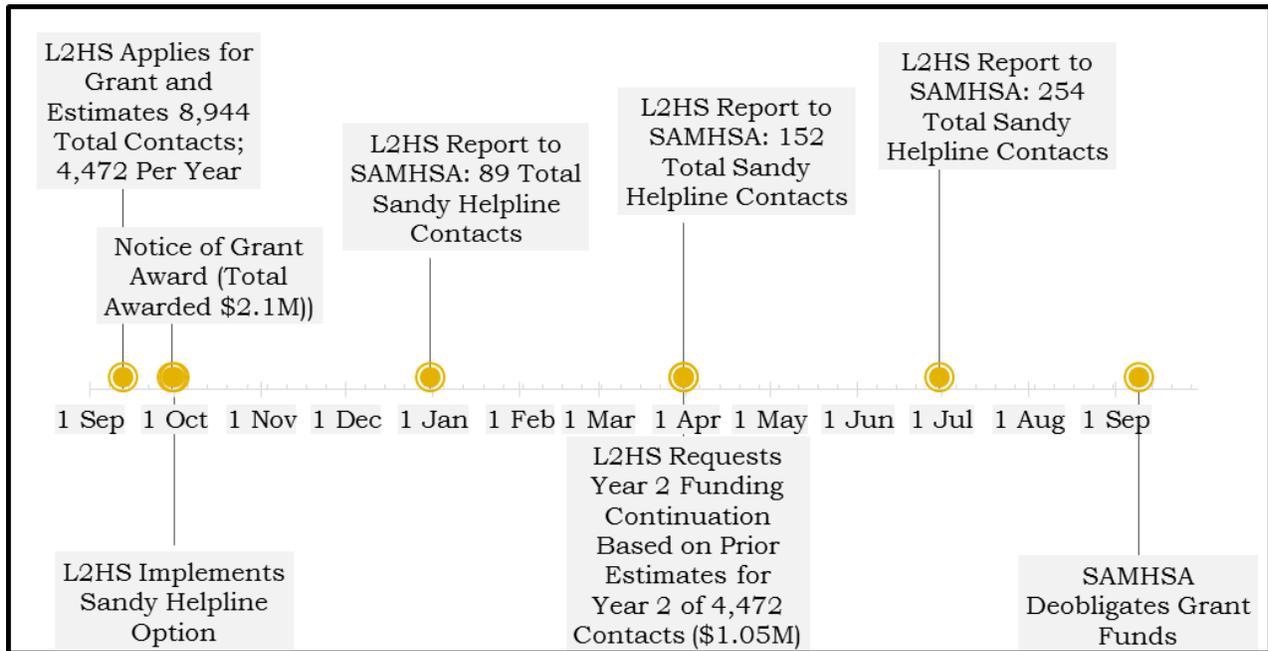
On March 31, 2014, L2HS submitted to SAMHSA an application for \$1,050,000 in Year 2 funding, which was based on the initial estimated number of 4,472 contacts. In addition, throughout the first year of the grant, L2HS submitted monthly and quarterly reports to SAMHSA on the number of contacts the Sandy Helpline received. As of June 30, 2014, 9 months after implementation, L2HS reported that the Sandy Helpline had received a total of 254 contacts.

On September 9, 2014, in response to the low Sandy Helpline contact volume, SAMHSA requested and L2HS agreed to relinquish its Disaster Relief Act funding. The chart (following page) details the timeline of L2HS's Disaster Relief Act grant.

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<sup>2</sup> The 4,472 contacts per year represents the number of contacts with individuals, not the number of individuals themselves.

**Chart: Timeline of SAMHSA Hurricane Sandy Grant to Link2Health Solutions  
September 1, 2013, Through September 30, 2014**



## Federal Requirements

Title 45, part 74, of the Code of Federal Regulations establishes uniform administrative requirements governing Department grants and agreements awarded to nonprofit organizations. As a nonprofit organization in receipt of Federal funds, L2HS must comply with Federal cost principles in 2 CFR part 230, *Cost Principles for Non-Profit Organizations*.<sup>3</sup> These cost principles require that grant expenditures submitted for Federal reimbursement be reasonable, allocable, and otherwise allowable.

## HOW WE CONDUCTED THIS REVIEW

We reviewed budgeted costs totaling \$2.1 million included in L2HS's request for Disaster Relief Act funds. We also reviewed \$393,691 in Disaster Relief Act funding that L2HS claimed for the implementation and operation of the Sandy Helpline for the 9-month period September 30, 2013, through June 30, 2014.

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

<sup>3</sup> The Office of Management and Budget (OMB) Circular No. A-122, *Cost Principles for Non-Profit Organizations* was relocated to 2 CFR part 230 and made applicable by 45 CFR § 74.27(a). Although not applicable to this audit, HHS promulgated new grant regulations at 45 CFR part 75. The new regulation applies only to awards made on or after December 26, 2014.

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.

Appendix A contains the details of our audit scope and methodology.

## **FINDINGS**

L2HS submitted detailed Disaster Relief Act budgets to SAMHSA that were not appropriate by the time L2HS applied for Year 2 funding. Specifically, L2HS based its Year 2 budgeted costs on its initial estimated number of contacts and did not adjust these costs to reflect the substantially lower actual number of contacts received in Year 1 of the grant period.<sup>4</sup> In addition, L2HS improperly claimed some Disaster Relief Act costs that did not comply with applicable Federal requirements. Of the \$393,691 in costs that we reviewed, \$333,694 complied with applicable Federal requirements. However, L2HS claimed \$59,997 in unallowable Disaster Relief Act costs because it (1) based salaries, fringe benefits, and other costs on budgeted employee hours rather than actual employee hours; (2) claimed costs incurred before the start of the grant; and (3) claimed duplicate indirect costs. Based on inquiries we made during our fieldwork, L2HS adjusted the direct cost base it used to calculate its indirect costs, which reduced L2HS's claimed indirect costs by \$5,175.

### **BUDGETED COSTS WERE NOT APPROPRIATE**

The budget is a financial expression of the project as approved during the award process and shall be related to performance for program evaluation purposes whenever appropriate (45 CFR § 74.25(a)). If a budget fails to relate to performance, then the awarding agency cannot appropriately evaluate the grantee's performance.

L2HS submitted detailed Disaster Relief Act budgets to SAMHSA that included costs that were not appropriate by the time L2HS applied for Year 2 funding. Specifically, on March 31, 2014, L2HS submitted an application to SAMHSA for \$1,050,000 in Year 2 funding, which was based on an initial estimated number of 4,472 contacts. However, during the first 9 months of operation, L2HS reported to SAMHSA that the helpline had received only 254 contacts, substantially less than its initial estimate. L2HS did not adjust its Year 2 budgeted costs to reflect the lower actual number of contacts.

On September 9, 2014, during our fieldwork, SAMHSA began the process for L2HS to relinquish its Disaster Relief Act funding because of low contact volume. SAMHSA also revised the Notice of Award to reflect the deobligation of Year 2 funds and specified that the end of the grant period was September 29, 2014.<sup>5</sup> Therefore, we have no recommendation related to L2HS's Year 2 budgeted costs.

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<sup>4</sup> L2HS's initial 24-month estimate was based on the number of individuals that the Federal Emergency Management Agency had assisted in the aftermath of Hurricane Sandy. Using this information, L2HS used a "research-supported" model to predict the number of contacts that the Sandy Helpline would receive.

<sup>5</sup> According to SAMHSA officials, all deobligated Disaster Relief Act funds were returned to the Department.

## UNALLOWABLE COSTS

### Unsupported Salaries, Fringe Benefits, and Other Costs

To be allowable under an award, costs must be adequately documented (2 CFR part 230, Appendix A, §§ A.2.g). Specifically, charges to awards for salaries and wages must be based on documented payrolls and supported by personnel activity reports that reflect the actual activity of each employee. Budget estimates (i.e., estimates determined before the services are performed) do not qualify as support for charges to awards (2 CFR part 230, Appendix B, §§ 8(m)(1) and (2)(a)).

L2HS claimed salaries, fringe benefits, and other costs totaling \$262,636 related to the Sandy Helpline. These costs were claimed on the basis of budgeted employee hours, not actual hours, because L2HS's payroll system could not capture the actual number of hours that an employee worked on the helpline. We used time and effort reports maintained by L2HS to determine the actual number of hours employees worked on the helpline and determined that L2HS overstated salaries, fringe benefits, and other costs by \$36,248.

### Unallocable Costs

#### *Salaries and Fringe Benefits Claimed Before Start of Grant*

To be allowable under an award, costs must be allocable. A cost is allocable to a Federal award if it is incurred specifically for the award (2 CFR part 230, Appendix A, § A.4.a(1)).

L2HS improperly claimed \$11,657 in salaries and fringe benefits that were incurred before the start of the Hurricane Sandy grant.<sup>6</sup>

#### *Property Insurance Incorrectly Claimed as a Direct Cost*

Direct costs are those costs that can be identified specifically with a particular final cost objective (i.e., a particular award, project, service, or other direct activity of an organization). However, a cost may not be assigned to an award as a direct cost if any other cost incurred for the same purpose, in like circumstance, has been allocated to an award as an indirect cost (2 CFR part 230, Appendix A, § B.1).

L2HS incorrectly claimed \$6,917 in property insurance as a direct cost when these same costs had been allocated to the Hurricane Sandy grant as an indirect cost. According to the Department's Division of Cost Allocation (DCA)—the Federal agency responsible for establishing L2HS's indirect cost rate—property insurance was included in L2HS's indirect cost rate calculation and should not have been claimed as a direct cost.

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<sup>6</sup> Costs incurred before the award are allowable if approved by the awarding agency; however, these costs were not pre-award costs and should not have been allocated to L2HS's Hurricane Sandy grant.

## **Duplicate Indirect Costs**

Federal cost principles require that grant expenditures submitted for Federal reimbursement be reasonable, allocable, and otherwise allowable (2 CFR part 230).

L2HS claimed duplicate indirect costs totaling \$5,175 because it incorrectly included certain costs in its direct cost base.<sup>7</sup> Specifically, L2HS made payments totaling \$37,500 to Here2Help Connect, a Hurricane Sandy call center that was fully owned by L2HS's parent company. These payments included indirect costs; however, they were also included in the direct cost base used to calculate L2HS's indirect costs. Because L2HS's payments to Here2Help Connect represented transactions between legal entities owned by the same parent company, L2HS should have excluded the \$37,500 from its direct cost base to prevent a duplication of costs. After inquiries made by the audit team, L2HS removed these costs from its direct cost base which reduced L2HS's claimed indirect costs by \$5,175. Therefore, there is no recommended recovery associated with this finding.

## **RECOMMENDATION**

We recommend that SAMHSA ensure that L2HS refunds \$54,822 to the Federal Government for unallowable actual costs.<sup>8</sup>

## **LINK2HEALTH SOLUTIONS, INC., COMMENTS**

In written comments on our draft report, L2HS acknowledged that it billed budgeted personnel costs rather than actual costs and indicated that it refunded \$42,985 to SAMHSA for these unsupported costs. In addition, L2HS officials stated that they had inadvertently claimed salaries and fringe benefits incurred before the start of the Hurricane Sandy grant and that they would work with SAMHSA to refund these costs.

L2HS officials disagreed with our finding concerning its Year 2 budgeted costs and stated that in submitting its application for Year 2 funding, they based the estimated number of contacts to the helpline on "call center experience." Specifically, L2HS stated that it reasonably expected the number of contacts to substantially increase in the second half of Year 1 and into Year 2 because there is frequently a lag between initial outreach efforts and utilization rates.

L2HS officials also stated that they believed property insurance was excluded from the indirect cost rate and therefore billed these costs as a direct cost. Finally, L2HS officials stated that they never included payments to Here2Help Connect in their indirect cost calculation and attached copies of their accounting records to support their position.

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<sup>7</sup> Duplicate indirect costs represent \$37,500 in costs that were incorrectly included in L2HS's direct cost base, multiplied by L2HS's indirect cost rate (13.80 percent).

<sup>8</sup> Our recommended recovery of \$54,822 reflects adjustments that L2HS made before the end of our fieldwork that reduced its claimed indirect costs (\$59,997 – \$5,175).

L2HS's comments are included as Appendix B.<sup>9</sup>

### **OFFICE OF INSPECTOR GENERAL RESPONSE**

After reviewing L2HS's comments and supporting documentation, we maintain that our findings and recommendation are valid. We did not verify the accuracy of the \$42,985 that L2HS refunded to SAMHSA for unsupported costs.

It was not reasonable for L2HS to continue to expect contacts in the second 6-month period to increase to a point where L2HS would come close to achieving the 4,472 contacts estimated for Year 1. After 6 months, the helpline had received 152 contacts, far less than the 2,236 that L2HS had estimated for that period.

On the basis of our discussion with DCA officials, we concluded that property insurance was included in L2HS's indirect cost rate and, therefore, should not have been claimed as a direct cost.

Finally, it was during our fieldwork that L2HS adjusted its claimed indirect costs to remove payments made to Here2Help Connect from the direct cost base used to calculate its indirect costs. Inquiries by the audit team likely resulted in L2HS making these adjustments.

### **SUBSTANCE ABUSE AND MENTAL HEALTH SERVICES ADMINISTRATION COMMENTS**

In written comments on our draft report, SAMHSA concurred with our findings that L2HS overstated salaries, fringe benefits, and other costs, claimed costs incurred before the start of the grant, and incorrectly claimed property insurance costs as a direct cost.

SAMHSA did not agree that L2HS's Year 2 budgeted costs were inappropriate because L2HS was required to submit its Year 2 proposed budget 6 months before the start of Year 2. At that time L2HS expected its outreach efforts to significantly increase the helpline call volume and justify the Year 2 proposed budget. SAMHSA also disagreed that L2HS claimed duplicate indirect costs because L2HS deducted payments made to Here2Help Connect from its direct cost base.

Finally, SAMHSA indicated that L2HS returned \$42,985 in overstated salaries and fringe benefits as a result of a SAMHSA improper payment assessment.<sup>10</sup>

### **OFFICE OF INSPECTOR GENERAL RESPONSE**

After reviewing SAMHSA's comments, we maintain that our findings and recommendation are valid. However, we revised our finding related to duplicate indirect costs and removed the

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<sup>9</sup> Attachments to L2HS's comments are not included because they were too voluminous.

<sup>10</sup> We were made aware of SAMHSA's improper payment assessment activities after the issuance of our draft report to SAMHSA.

associated dollars from our recommendation because L2HS adjusted these costs as a result of our audit.

We maintain that it was not reasonable for L2HS to expect helpline contacts to significantly increase in Year 2 based on the number of contacts it had received during the first 6 months of Year 1. As detailed in our timeline (page 3), 152 contacts were made to the helpline during the first 6 months of Year 1. Nevertheless, L2HS based its Year 2 funding application on its initial estimate that the helpline would receive 4,472 contacts during Year 2.

We did not verify the \$42,985 in overstated salaries and fringe benefit costs that L2HS returned to SAMHSA as a result of SAMHSA's improper payment assessment.

SAMHSA's comments are included as Appendix C.

## **APPENDIX A: AUDIT SCOPE AND METHODOLOGY**

### **SCOPE**

We reviewed \$393,691 in Disaster Relief Act funding that L2HS claimed for the operation of the Sandy Helpline for the period September 30, 2013, through June 30, 2014. We also reviewed the budgeted costs L2HS included in its funding request to SAMHSA and the internal controls L2HS implemented to manage Disaster Relief Act funds.

We performed our fieldwork at L2HS's offices in New York, New York, from May through September 2014.

### **METHODOLOGY**

To accomplish our objective, we:

- reviewed applicable Federal laws, regulations, and guidance;
- reviewed SAMHSA's request for application (SM-13-011) related to the implementation and operation of a Sandy Helpline and the SAMHSA notice of award to gain an understanding of the project, its objectives, and the terms and conditions of the award;
- reviewed L2HS's funding application for the Sandy Helpline and determined whether proposed budgeted costs were appropriate;
- interviewed DCA officials to gain an understanding of L2HS's DCA-approved indirect cost rate;
- reviewed MHA-NYC's (L2HS's parent company) most recent A-133 audit reports to identify issues that could affect Hurricane Sandy funding;
- interviewed L2HS officials and reviewed L2HS's internal controls and procedures for managing and claiming Disaster Relief Act funds to obtain an understanding of how L2HS allocated costs to different Federal awards;
- reviewed L2HS's audited financial statements for fiscal years 2010 through 2012 and supporting documentation;
- reconciled L2HS's reported Disaster Relief Act expenditures to its accounting records;
- reviewed L2HS claimed Disaster Relief Act costs to determine allowability in accordance with Federal requirements; and
- discussed the results of our review with L2HS officials.

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.

## APPENDIX B: LINK2HEALTH SOLUTIONS, INC., COMMENTS



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September 24, 2015

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RE: Report No. A-02-14-02013

Dear Mr. Edert:

Thank you for providing us with the Office of Inspector General's draft report entitled *Link2Health Solutions, Inc., Budgeted Costs That Were Not Appropriate and Claimed Some Allowable Hurricane Sandy Disaster Relief Act Funds* ("Report"). Our comments on the Report follow.

### **FINDINGS AND RESPONSES**

#### **FIRST FINDING: BUDGETED COSTS WERE NOT APPROPRIATE**

The title of the report includes the phrase "Budgeted Costs That Were Not Appropriate and Claimed." Based on the facts below, we do not believe that the title, parts of the introduction, and first finding accurately represent the facts.

As background, this grant commenced on September 30, 2013. The deadline for applying for a second year of funding was March 31, 2014, six months into the grant. Since there was a relatively short time frame for outreach/communication prior to the due date of the application, in submitting its application for a second year of funding, L2HS based its estimated call rate on call center experience demonstrating that there is frequently a lag between initial outreach/communication efforts and utilization rates. Based on its prior experience, L2HS reasonably expected the number of calls to substantially increase during the second half of year one of the grant and into year 2. Based on this experience, the estimated increase in call volume was and related budgeted costs therefore were reasonable and appropriate when submitted.

Despite the substantial L2HS outreach and communication efforts however, call volume remained relatively flat. Consequently, by late summer 2014, well before any new funding was due, L2HS concluded that the second year request for funding was not warranted and advised SAMHSA that it was voluntarily relinquishing the Year 2 funds. However, the Report fails to reflect that the parties mutually agreed on the appropriate course of action and consequently, L2HS voluntarily relinquished the funds.

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Accordingly, L2HS suggests that the phrase, “Budgeted Costs That Were Not Appropriate” be replaced with “Voluntary Relinquishment of Funds” which more precisely describes the facts in this instance. Similarly, L2HS suggests that the fourth and fifth full paragraphs on pg. 2 of the Report be amended to read as follows (italicized language is new and strike-throughs reflect suggested deletions):

*Based on longstanding experience demonstrating that outreach and communication efforts ultimately culminate in increased call volume, on March 31, 2014, L2HS submitted an application to SAMHSA for \$1,050,000 in Year 2 funding, which was based on the initial estimated number of 4,472 contacts. In addition, throughout the first year of the grant, L2HS submitted monthly and quarterly reports to SAMHSA on the number of contacts the Sandy Helpline received. As of June 30, 2014, 9 months after implementation, L2HS reported that the Sandy Helpline had received a total of 254 contacts. Around that point in time, L2HS concluded that, despite its outreach and communication efforts, Sandy calls were unlikely to substantially increase, and advised SAMSHA that it was voluntarily relinquishing the Sandy funds.*

~~On September 9, 2014, in response to the low Sandy Helpline contact volume, SAMHSA requested and L2HS agreed to relinquish its Disaster Relief Act funding. The chart (following page) details the timeline of L2HS’s Disaster Relief Act grant.~~

Similarly, L2HS requests that the Findings be revised to reflect L2HS’s experience that outreach and communication leads to increased call volume and that when reasonably predicted call volume increases did not occur, L2HS voluntarily relinquished the funds.

**SECOND FINDING: Unsupported Salaries, Fringe Benefits, and Other Costs**

The Report notes that L2HS claimed salaries, fringe benefits and other costs based on budgeted employee hours rather than actual hours since L2HS’s payroll system could not capture the actual number of hours worked. OIG used paper time and effort reports maintained by staff to determine the actual number of hours worked and found that L2HS overstated salaries, fringe benefits, and other costs by \$36,248.

***L2HS Response:*** In acknowledgement that it had billed for budgeted personnel costs, rather than actual personnel costs, L2HS analyzed employee timesheets, and compared the time reflected on the paper time sheets to the amounts billed. Based on this analysis, L2HS found that it inadvertently overbilled for personnel costs. In October 2014, after further conversations with its Grants Administrator, Sherie Fairfax, L2HS submitted a reimbursement check to the Department of Health and Human Resources for \$42,985.00, representing payments received for personnel costs for which L2HS did not have adequate backup. (Ex. 1) L2HS therefore requests that (1) the second finding be deleted, or at minimum include a statement noting that this amount was previously refunded in October 2014; and (b) that the sum of \$6,737, representing the difference between the finding of \$36,248 owed and the previously refunded amount \$42,985.00 be set off against any disallowed amounts that L2HS may still owe.

**THIRD FINDING: Unallocable Costs**

The Report states that \$11,657 in salaries and fringe benefits were incurred prior to the start of the Hurricane Sandy grant.

**L2HS Response:** L2HS inadvertently submitted salaries and fringe benefits that were incurred in September 2013 prior to the start of the Hurricane Sandy grant and will work with SAMHSA to refund the appropriate amount.

**FOURTH FINDING: Duplicate Costs**

The Report states that:

- L2HS incorrectly claimed \$6,917 in property insurance as a direct cost when these same costs had been allocated to the Hurricane Sandy grant as an indirect cost; and
- L2HS incorrectly included indirect costs in its direct cost base. Specifically, since the payments that L2HS made to H2H represented transactions between legal entities owned by the same parent company, L2HS should have eliminated the \$37,500 from its direct cost base to prevent a duplication of indirect costs totaling \$5,175.

**L2HS Response:**

**Property Insurance.** It was L2HS's understanding that the indirect insurance rate covered directors and officers, general liability, professional liability, and cyber-insurance policies, but did not include property insurance. Since L2HS understood that property insurance was excluded from its indirect rate calculation, it billed the grant for property insurance.

In addition, please note that L2HS charged an indirect rate of 13.8%, although its indirect rate was 15.9% (see **Ex. 2**).

**H2H Costs and Indirect Rate.** L2HS is a wholly owned subsidiary of MHA. L2HS contracted with Here2Help ("H2H"), MHA's call center, to answer Hurricane Sandy calls. As explained below and set forth on the referenced exhibits, L2HS did not include amounts paid to MHA in its direct cost base when determining the indirect cost amount.

- L2HS billed total "Personal Services" of \$205,753.14. (**Ex. 3 at Note 1**)
- L2HS billed total "Other Than Personal Services" of \$105,800.82 (**Ex. 3 at Note 2**)
- The total PS and OTPS for the relevant time period equaled \$311,553.96.
- As noted in the Report, L2HS paid MHA a total stipend amount of \$37,500 to provide call center coverage.
- L2HS billed Agency Administration of \$37,819.45, reflecting exclusion of the MHA stipend amount, as shown below:
  - $\$311,553.96$  [total expenses] -  $\$37,500$  [stipend paid to MHA] =  $\$274,053.96$
  - $\$274,053.96 \times 13.8\%$  [indirect rate] =  $\$37,819.45$  [agency administration amount billed] (**Ex. 3 at Note 3**)
- Notably, had the indirect rate been applied to the total PS and OTPS amount of \$311,553.96, the Agency Administration amount would have been \$42,994.44, rather than \$37,819, as billed.

*Note that **Ex. 3** is taken from L2HS's General Ledger. The Requests for Payment supporting the amount in the general ledger are attached as **Exhibits 4(a) - 4(j)**. Since the Requests for payment include two programs (the Sandy Grant plus the Disaster Distress billing, a spreadsheet showing the amount of each Request for Payment attributable to the Sandy grant is attached as **Ex. 5**.*

**Summary**

The table below summarizes the OIG findings and MHA's comments.

OIG FINDING	OIG REFUND AMOUNT	L2HS COMMENT SUMMARY
Budgeted Costs Not Approved	0	L2HS requests that the language of the Report reflect additional facts.
Unsupported Salaries, Fringe Benefits, and Other Costs	\$36,248	L2HS previously reimbursed SAMHSA the amount of \$42,965 for unsupported personnel costs. L2HS requests that this finding be omitted or at minimum that the Report include a statement that L2HS previously refunded SAMHSA for the unsupported costs. L2HS further requests that the difference between the finding amount and the amount previously paid be set off against any refund amounts that L2HS may owe.
Unallocable Costs	\$11,657	L2HS inadvertently billed SAMHSA for those costs and will make refund arrangements with SAMHSA, or as directed.
Duplicate Costs – Property Insurance	\$6,917	L2HS understood that the property insurance was not included in the indirect rate.
Duplicate Costs – Payments of \$37,500 made to MHA included in determining indirect rate	\$5,175	These payments were not included in the direct cost base used to calculate L2HS's indirect costs.

L2HS requests that the Report be modified and the refund amount reduced to reflect the facts set forth herein.

Please let me know if you have any questions.

Respectfully submitted,

/Susan Shanklin/

Enc.

## APPENDIX C: SUBSTANCE ABUSE AND MENTAL HEALTH SERVICES ADMINISTRATION COMMENTS



FEB 10 2016

**TO:** Deputy Inspector General for Audit Services  
Office of Inspector General (OIG)

**FROM:** Acting Chief Financial Officer

**SUBJECT:** SAMHSA Response to OIG Draft Report Entitled: *Link2Health Solutions, Inc., Budgeted Costs That Were Not Appropriate and Claimed Some Unallowable Hurricane Sandy Disaster Relief Act Funds (A-02-14-02013)*

The Substance Abuse and Mental Health Services Administration (SAMHSA) received the referenced OIG draft report indicating that Link2Health Solutions, Inc. (L2HS) claimed unallowable costs totaling \$59,997 under its Hurricane Sandy grant and responds as follows:

### *Background*

SAMHSA conducted fiscal monitoring of Hurricane Sandy grant funds through the review of grantee quarterly financial report submissions. Expenditures included in these reports were compared to expectations and grantee drawdowns made from the Payment Management Service (PMS). Recipients were required to submit to SAMHSA documentation supporting each drawdown of Hurricane Sandy grant funds from PMS. SAMHSA reviewed the supporting documentation as part of improper payment assessments and required recipients to return unallowable expenditures. As such, L2HS returned \$42,985 to SAMHSA for a review period similar to the audit period covered by the OIG draft report.

The draft report indicated that the OIG reviewed \$393,691 in costs L2HS claimed for the 9-month period covering September 30, 2013 through June 30, 2014. SAMHSA's improper payments assessments of L2HS for the period November 2013 through August 2014 included the review of documentation supporting \$390,668 in drawdowns L2HS made from PMS. Please refer to the Attachment for a list of these drawdowns and the amounts SAMHSA reviewed.

### *First Finding – Budgeted Costs Were Not Appropriate*

SAMHSA does not concur with the finding that L2HS submitted budgets including costs that were not appropriate because L2HS was required to submit its year 2 grant application, that included its proposed budget, six months prior to the start of year 2. Additionally, L2HS expected its outreach efforts to significantly increase the call volume and justify the year 2

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proposed budget. When that did not occur, L2HS relinquished the grant effective at the end of year 1 of the grant period and the year 2 budgeted costs were no longer pertinent.

***Second Finding – Unsupported Salaries, Fringe Benefits, and Other Costs***

SAMHSA concurs with the OIG finding that L2HS overstated salaries, fringe benefits, and other costs by \$36,248 because they were claimed based on budgeted employee hours, not the actual hours employees worked on the grant project. The OIG was able to calculate the overstatement because L2HS maintained time and effort reports reflecting the actual time employees worked on the grant project.

SAMHSA's improper payments assessments of L2HS for a similar review period identified the same issue; however, SAMHSA's calculation of L2HS' overstated salaries and fringe benefits totaled \$42,985, which was \$6,737 more than the amount in the OIG report. L2HS accepted SAMHSA's finding and calculation and returned the \$42,985 to SAMHSA in October 2014. Therefore, SAMHSA does not plan to pursue further collections relating to this finding and requests that the OIG revise its report to reflect that L2HS has already returned \$42,985 to SAMHSA relating to overstated salaries and fringe benefits.

***Third Finding – Unallocable Costs, Salaries and Fringe Benefits Claimed Prior to Start of Grant***

SAMHSA concurs with the OIG finding that L2HS improperly claimed salaries and fringe benefits totaling \$11,657 that it incurred prior to the start of the grant project. The OIG deemed the pre-award costs unallowable because SAMHSA did not approve them.

***Fourth Finding – Unallocable Costs, Property Insurance Incorrectly Claimed as a Direct Cost***

SAMHSA concurs with the OIG finding that L2HS incorrectly claimed \$6,917 in property insurance as a direct cost when these same costs had been allocated to the grant project as an indirect cost. According to the Department's Division of Cost Allocation, L2HS included property insurance in its indirect cost pool and property insurance should not have been claimed as a direct cost.

***Fifth Finding – Duplicate Indirect Costs***

SAMHSA does not concur with the OIG finding that L2HS claimed duplicate indirect costs totaling \$5,175 because it incorrectly included payments totaling \$37,500 made to Here2Help Connect, a Hurricane Sandy Call center that is fully owned by L2HS' parent company, in its direct cost base. Because L2HS' payments to Here2Help Connect represented transactions between legal entities owned by the same parent company, L2HS should have eliminated the \$37,500 from its direct cost base to prevent a duplication of costs.

Page 3 – Deputy Inspector General for Audit Services

SAMHSA reviewed L2HS' response and supporting documentation submitted to the OIG as well as documentation it gathered and maintained as part of its improper payments assessments of L2HS. These reviews revealed that L2HS deducted these payments from its direct cost base. SAMHSA requests that the OIG either remove this finding from its report or provide additional documentation to SAMHSA supporting the finding.

***Summary***

SAMHSA concurred with the OIG's second, third, and fourth findings that identified \$54,822 in unallowable costs L2HS claimed under its Hurricane Sandy grant and will reconsider its position regarding the fifth finding if the OIG provides additional documentation supporting its position.

Please contact me with questions by telephone at 240-276-1403 or by email at [dan.spears@samhsa.hhs.gov](mailto:dan.spears@samhsa.hhs.gov).



Dan Spears

Attachment  
Drawdown Listing

**Attachment – Drawdown Listing**

<b>Drawdown No.</b>	<b>Date of Drawdown</b>	<b>Amount of Drawdown</b>
1	11/20/2013	\$ 40,336
2	1/17/2014	\$ 54,386
3	1/23/2014	\$ 27,109
4	2/27/2014	\$ 22,813
5	3/21/2014	\$ 38,367
6	4/30/2014	\$ 37,869
7	5/28/2014	\$ 66,907
8	6/6/2014	\$ 5,300
9	6/16/2014	\$ 39,872
10	8/18/2014	\$ 16,413
11	8/29/2014	\$ 41,295
	<b>TOTAL</b>	<b>\$ 390,668</b>