

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**HEARTLAND HUMAN CARE
SERVICES, INC., GENERALLY MET
SAFETY STANDARDS, BUT CLAIMED
UNALLOWABLE RENTAL COSTS**

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Office of Inspector General

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OFFICE OF AUDIT SERVICES FINDINGS AND OPINIONS

The designation of financial or management practices as questionable, a recommendation for the disallowance of costs incurred or claimed, and any other conclusions and recommendations in this report represent the findings and opinions of OAS. Authorized officials of the HHS operating divisions will make final determination on these matters.

Report in Brief

Date: September 2018
Report No. A-05-16-00038

U.S. DEPARTMENT OF HEALTH & HUMAN SERVICES
OFFICE OF INSPECTOR GENERAL



Why OIG Did This Review

The Unaccompanied Alien Children (UAC) program, which is overseen by HHS's Office of Refugee Resettlement (ORR), served between 7,000 and 8,000 children annually from fiscal year (FY) 2005 through FY 2011. The UAC program served approximately 13,600 children in FY 2012, 24,700 in FY 2013, 57,500 in FY 2014, and 33,700 in FY 2015.

As the number of children increased, funding for the program increased. From FY 2009 through FY 2015, funding for the UAC program totaled more than \$3 billion.

We selected Heartland Human Care Services, Inc. (Heartland), for review because it received the third highest amount of UAC program funding and served a large number of children.

Our objectives were to determine whether Heartland (1) met applicable safety standards for the care and release of children in its custody and (2) claimed only allowable expenditures in accordance with applicable laws, regulations, and departmental guidance.

How OIG Did This Review

We reviewed Heartland's compliance with safety standards and costs claimed for the FY 2015 program period. We reviewed UAC case files, personnel records, and financial transactions, and we inspected buildings that provided shelter care.

Heartland Human Care Services, Inc., Generally Met Safety Standards, but Claimed Unallowable Rental Costs

What OIG Found

Heartland generally met applicable safety standards for the care and release of children in its custody. Heartland met State licensure requirements and requirements for inspections, performed adequate oversight, and followed guidance when reviewing background investigations for employees who care for the children. However, we observed one classroom where the staff-to-child supervision ratio was significantly less than required, and we observed one classroom and hallway that lacked required monitoring equipment. We also found that some Heartland case files were missing documentation assuring that required records were provided upon the child's release to a family member or other sponsor.

Heartland claimed allowable expenditures for 119 of 120 transactions reviewed in our stratified random sample. For one transaction, it did not comply with Federal regulations related to less-than-arm's-length lease agreements. We also identified rental costs on two additional less-than-arm's-length leases that exceeded the amount allowable for such leases. The three leases resulted in unallowable rental costs of \$665,333 and associated indirect costs of \$103,127.

What OIG Recommends and Heartland's Comments

We recommend that Heartland adhere to classroom staffing-to-child ratios in accordance with State regulations and maintain children's case file documentation in accordance with ORR policy. We also recommend that Heartland refund \$768,460 to ORR for unallowable costs incurred under the less-than-arm's-length lease agreements and limit future rental costs under less-than-arm's-length lease agreements to the amount that would be allowed under 45 CFR section 75.465(c).

In written comments on our draft report, Heartland agreed with our first two recommendations regarding staffing-to-child ratios and maintenance of case file documentation. Heartland did not agree with our third recommendation to refund \$768,460 to ORR for unallowable rental costs.

After reviewing Heartland's comments, we maintain that the recommendation to refund unallowable rental costs is valid, although the amount of questioned costs for one facility could be reduced. We defer to ACF to determine any potential adjustments for the one facility.

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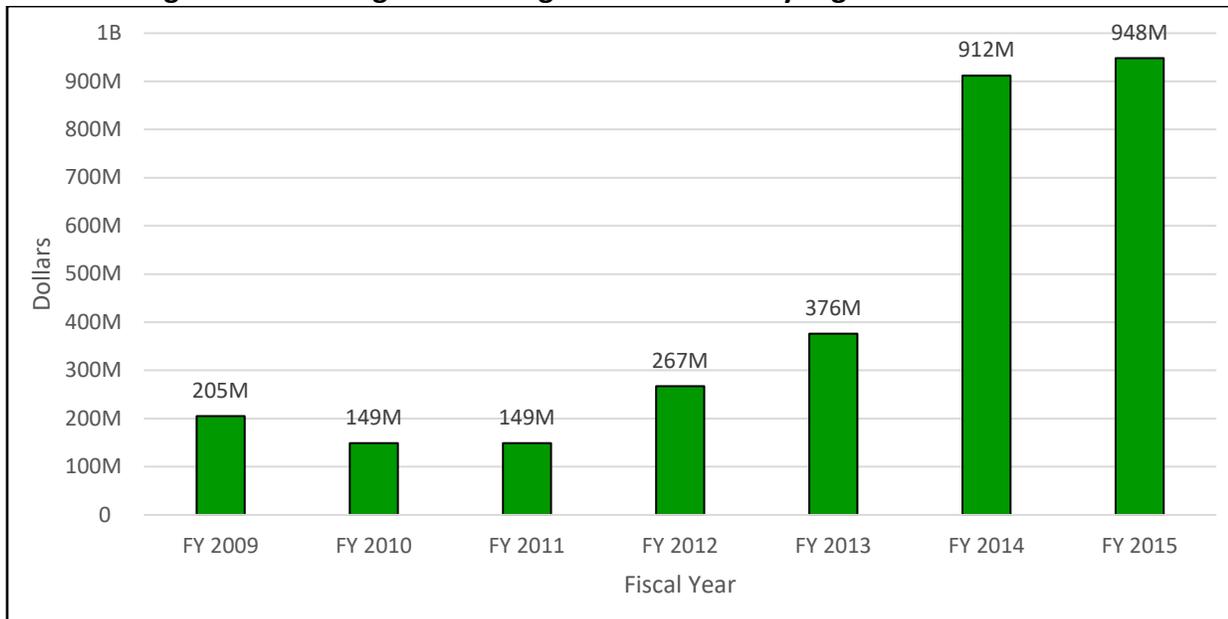
INTRODUCTION

WHY WE DID THIS REVIEW

The Office of Refugee Resettlement (ORR) within the U.S. Department of Health and Human Services' (HHS's) Administration for Children and Families manages the Unaccompanied Alien Children (UAC) program. The UAC program served between 7,000 and 8,000 children annually from fiscal year (FY) 2005 through FY 2011. In FY 2012, however, the number of children entering the program began to increase, and by the end of FY 2012, the UAC program served approximately 13,600 children. In FY 2013, the program served 24,668 children, and in FY 2014, referred to as the "surge" year, ORR served 57,496 children. During FY 2015, ORR served 33,726 children.

As the number of children increased, funding for the program increased. From FY 2009 through FY 2015, ORR's funding for its UAC program totaled more than \$3 billion, of which \$1.9 billion (62 percent) was for FYs 2014 and 2015 (Figure 1).

Figure 1: UAC Program Funding Was Substantially Higher in FY 2014 and 2015



Because of the rapid increase of vulnerable children entering ORR care, the significant increases in program funding, and the multiple changes to ORR policies during FY 2014, we are conducting a series of reviews of ORR care providers across the Nation. We selected Heartland Human Care Services, Inc. (Heartland), for review because it received the third highest amount of UAC program funding and served a large number of children.

OBJECTIVES

Our objectives were to determine whether Heartland (1) met applicable safety standards for the care and release of children in its custody and (2) claimed only allowable expenditures in accordance with applicable laws, regulations, and departmental guidance.

BACKGROUND

Within HHS, ORR manages the UAC program. The UAC program funds temporary shelter care¹ and other related services for unaccompanied children in ORR custody. In FY 2014, ORR awarded grants totaling \$1.1 billion to providers for the care and placement of children. The UAC program is separate from State-run child welfare and traditional foster care systems.

By law, HHS must provide for the custody and care of UAC, defined as children who have no lawful immigration status in the United States; have not attained 18 years of age; and with respect to whom there is no parent or legal guardian in the United States, or no parent or legal guardian in the United States available to provide care and physical custody (6 U.S.C. § 279(g)(2)). The Flores Settlement Agreement established a nationwide policy for the detention, treatment, and release of UAC and recognized the particular vulnerability of UAC while detained without a parent or legal guardian present.²

Under the Homeland Security Act of 2002, Congress transferred the care and custody of UAC to HHS from the former Immigration and Naturalization Service to move toward a child welfare-based model of care and away from the adult detention model. In the Trafficking Victims Protection Reauthorization Act of 2008, which expanded and redefined HHS's statutory responsibilities, Congress directed that each child must "be promptly placed in the least restrictive setting that is in the best interest of the child" (8 U.S.C. § 1232(b)(2)).

During our audit period, which was October 2014 through September 2015 (FY 2015), ORR relied on different sources for policies and procedures, depending on the date and the topic. From October to January, ORR looked to the *2006 Draft Division of Unaccompanied Children's Services Policies and Procedures Manual* (P&P Manual) for applicable policies and procedures.³ Additionally, ORR used the *ORR UAC Program Operations Manual*, which was originally issued in April 2012 and updated periodically, including in April 2014 (Ops Manual 2014). The Ops Manual covered only certain areas of program management, and where there was no Ops

¹ Shelter care is a residential care provider facility in which all of the programmatic components are administered onsite in the least restrictive environment. The goal of shelter care is to provide the least restrictive setting that is in the best interests of the child, taking into consideration potential flight risk and danger to the child and others.

² *Flores v. Meese—Stipulated Settlement Agreement* (U.S. District Court, Central District of California, 1997) (Flores Settlement Agreement).

³ Although the P&P Manual was marked "[D]raft," ORR told us that it included policies and procedures that should be followed.

Manual guidance, ORR referred to the P&P Manual. ORR made changes to both the P&P Manual and the Ops Manual on an ad-hoc basis.

In 2015, ORR issued the *ORR Guide: Children Entering the United States Unaccompanied* (Policy Guide), effective January 2015, and the *ORR UAC Program Operations Guide* (Operations Guide), effective September 2015, to replace the previous draft versions. ORR updates these documents on an ad-hoc basis and records the most recent effective date next to each policy provision.

We looked to the P&P Manual, the 2014 Ops Manual, the Operations Guide, and the Policy Guide to determine the policies and procedures in effect during our audit period, depending on the date and the topic. We applied the relevant policy or policies to determine whether Heartland was in compliance with ORR requirements. In this report, we include citations to all of the relevant provisions in effect throughout the entire audit period. For findings stemming from our site visit on June 21, 2016, we cite to the applicable criteria in effect on that date. See Appendix B for relevant ORR requirements.

Federal regulations establish uniform administrative requirements for awards to nonprofit organizations. For grant awards made prior to December 26, 2014, 45 CFR part 74 establishes uniform administrative requirements governing HHS grants and agreements awarded to nonprofit entities. The allowability of costs incurred by nonprofit organizations is determined in accordance with the provisions of 2 CFR part 230 (formerly OMB Circular No. A-122) (made applicable by 45 CFR § 74.27(a)). For grant awards made on or after December 26, 2014, 45 CFR part 75 establishes uniform administrative requirements, cost principles, and audit requirements for Federal awards to non-Federal entities. For the purposes of this report, there were only minor, non-substantive differences between the provisions of the rules that applied to a finding; thus, for simplicity's sake, we cited to the provisions of 45 CFR part 74 because it applied during the beginning of our audit period. We have included the relevant cites to 45 CFR part 75 in footnotes.

Care Process

ORR funds care providers through cooperative agreements to provide temporary housing and other services to children in ORR custody at State-licensed facilities. These facilities must meet ORR requirements to ensure a high-level quality of care.

Federal field specialists (FFSs) are Federal employees who oversee the care providers and ensure that they are following ORR requirements. FFSs are ORR's field staff who are assigned to a group of care providers within a region. An FFS's authority includes approving or denying all child transfer and release decisions, overseeing care providers, implementing policies and procedures, and serving as liaisons to local stakeholders. FFSs also provide guidance, direction, and technical assistance to care providers.

Care providers employ case managers, whose responsibilities include:

- coordination of child assessments, which includes completing individual service plans;
- assessing potential child sponsors;
- making transfer and release recommendations; and
- coordinating the release of a child to a sponsor.

ORR contracts with case coordinators who act as local ORR liaisons with care providers. Case coordinators serve as third-party reviewers of each case manager's family reunification process. After reviewing the case managers' decisions, case coordinators make transfer and release recommendations to the FFSs.

ORR policy requires that children receive certain care and services while in care provider facilities. See Appendix D for a chart of these services.

Family Reunification Process

In addition to caring for children, the care providers facilitate the release of a child to family members or other sponsors, known as the family reunification process, according to the following preferences: (1) a parent, (2) a legal guardian, (3) an adult relative, (4) an adult individual or entity designated by the child's parent or legal guardian, (5) a licensed program willing to accept legal custody, or (6) an adult or entity approved by ORR. ORR groups these sponsors into three categories:

- Category 1 – parents and legal guardians;
- Category 2 – other immediate adult relatives, such as a brother, sister, aunt, uncle, or grandparent; and
- Category 3 – distant relatives and unrelated adults.

In making placement decisions, case managers facilitate background investigations of sponsors. The level of the background check depends on the relationship between a sponsor and a child.

During the family reunification process, case managers are responsible for conducting a suitability assessment of a sponsor. This assessment includes investigating the background of the sponsor, but case managers must also confirm the familial relationship of the sponsor to the child. Furthermore, current ORR policy requires the sponsor to complete a sponsor care plan if the sponsor is unlawfully present in the United States. ORR requires a sponsor care plan

to ensure that each child has a caregiver, regardless of any complications that could arise from a sponsor's immigration status.

The field specialist, case manager, and case coordinator each play a role in the decision to release an unaccompanied child to a sponsor. The case manager makes a recommendation to the case coordinator regarding the release. The case coordinator conducts a third-party review of the proposed release and makes a recommendation to the field specialist on the release of the unaccompanied child to a particular sponsor. If the case manager and case coordinator are unable to agree on a particular recommendation, they may refer the case directly to a field specialist for guidance. Once the case manager and case coordinator present a recommendation to the field specialist, the field specialist reviews the recommendation and makes a release decision.

Heartland

Heartland is a nonprofit shelter care provider in Chicago, Illinois, and is a subsidiary of Heartland Alliance for Human Needs & Human Rights (Heartland Alliance). Since 1995, Heartland has participated in the UAC program and has served more than 19,000 children. In FY 2015, Heartland spent approximately \$25 million in Federal funds for the care and placement of approximately 1,100 children.

Of the approximately 1,100 children at Heartland during 2015:

- 70 percent were males and 30 percent were females,
- 56 percent were between the ages of 13 and 16, and
- 50 percent were released to category 1 sponsors.

HOW WE CONDUCTED THIS REVIEW

To determine whether Heartland met applicable safety standards, we (1) inspected two of seven buildings that provided shelter care, (2) reviewed a nonstatistical sample of Heartland's licensing documents and inspection results, (3) reviewed a nonstatistical sample of Heartland's personnel records, and (4) reviewed a random sample of case files for those children who had been released to a sponsor during FY 2015.

To verify that Heartland claimed only allowable expenditures, we reviewed (1) a statistical sample of financial transactions; (2) all rental costs for three residential facilities; and (3) Heartland's accounting policies, procedures, and organizational structure.

Our review covered \$20 million in direct expenses incurred from October 1, 2014, through September 30, 2015 (audit period). We selected a stratified random sample of 120 financial

transactions totaling \$239,415 for review. We also reviewed \$997,462 of claimed rental costs. We conducted site visits of shelter care buildings in June 2016.

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 A contains the details of our audit scope and methodology, Appendix C contains the details of our sampling methodology and estimate, and Appendix E contains selected definitions of key terms used in this report.

FINDINGS

Heartland generally met applicable safety standards for the care and release of children in its custody. Heartland met State licensure requirements and requirements for inspections, performed adequate oversight, and followed guidance when reviewing background investigations for employees who care for the children. However, we observed one classroom where the staff-to-child supervision ratio was significantly less than required, and we observed one classroom and hallway that lacked required monitoring equipment. We also found that some Heartland case files were missing required documentation related to the child's discharge. Without adequate documentation in the case files, ORR could not be assured that sponsors received all pertinent information concerning the children and that all of the children's property was provided at discharge.

Heartland claimed allowable expenditures for 119 of 120 transactions reviewed in our stratified random sample. For one transaction, it did not comply with Federal regulations related to less-than-arm's-length lease agreements. We also identified rental costs on two additional less-than-arm's-length leases that exceeded the amount allowable for such leases. The three leases resulted in unallowable rental costs of \$665,333 and associated indirect costs of \$103,127.

HEARTLAND LACKED APPROPRIATE SUPERVISION AND MONITORING OF CHILDREN

Supervisor-to-Child Ratio Did Not Follow Illinois Regulations

Illinois regulations state that groupings and supervision of children must provide for individual attention and consideration of each child and that groups may be a maximum of 15 children.⁴

Heartland did not have the appropriate number of staff members for overseeing children in one classroom. During our visit to Building 2, we observed 1 classroom that contained 1 staff

⁴ Social Services chapter III: Department Of Children And Family Services subchapter e: Requirements for Licensure part 404, Licensing Standards For Child Care Institutions And Maternity Centers, section 404.28(a).

member overseeing 43 children. According to Illinois' regulations, at least three staff members should have been overseeing the children.⁵

One Building Did Not Meet Federal Policies on Security

The P&P Manual states that providers (with the exception of long-term foster care providers) must meet the following minimum safety- and security-related requirements: video monitoring in common and living areas (Policy Guide, § 3.3.4, Safety Planning – Care).

During our visit to Building 1, Heartland did not have video monitoring cameras in one classroom or in the hallway outside of the classroom.⁶ Without appropriate video monitoring equipment, Heartland was not able to observe and record interactions of the children in all common and living areas.

HEARTLAND WAS MISSING DOCUMENTATION FROM SOME CASE FILES

ORR requires that an assessment and case review be completed within 7 days of admittance (P&P Manual § 3.03, Policy Guide § 3.3.1). ORR also requires that the UAC case files be comprehensive, complete, accurate, up to date, confidential, and secure (P&P Manual § 1.02, Policy Guide § 5.6.2).

Heartland generally met ORR requirements for document completion and maintenance. Heartland used a number of internal quality control checklists to ensure that case files were up to date and complete. However, not all files were up to date, complete, or accurate. Of the 75 UAC case files reviewed, 1 file had an initial intake assessment form that was not completed or dated, and 16 files had other documentation errors. Heartland had more than 400 staff working with the children during the audit period, and children's files could be accessed by many individuals and kept in multiple locations, possibly resulting in the misplaced paperwork.

Information Not Dated

According to ORR policy, a care provider must use an "Initial Intakes Assessment" form to interview the child within 24 hours of arrival at the ORR facility (P&P Manual § 3.01, Policy Guide § 3.2.1). One sample file did not document the date that the child arrived at the ORR care provider facility or the date the intake assessment was completed. Therefore, we could not confirm that the 24-hour requirement was met for one child.

⁵ Additional staff were located outside the classroom in an adjoining common area, but not in the classroom.

⁶ Heartland installed video monitoring equipment after we notified it of the deficiency.

Case Files Were Missing Information To Verify That Sponsors Had Been Provided Required Documentation

Care providers are required to provide a number of documents to the sponsor and the UAC upon the UAC's release (P&P Manual § 6.01, Policy Guide § 5.6.2). We found that 16 of the 75 case files in our sample were missing verification that certain required documents, such as the child's medical records and property records, had been provided. Heartland used a Discharge Checklist to track that the required documentation had been provided to sponsors. This checklist was missing from the files, and there was no other documentation demonstrating that sponsors had received the required documentation. Without adequate documentation in Heartland's case files, ORR did not always have assurance that Heartland followed Federal regulations and ORR policy for the proper care of children and release of children to sponsors.

HEARTLAND CLAIMED UNALLOWABLE RENTAL COSTS RELATED TO LESS-THAN-ARM'S-LENGTH LEASES WITH THREE FACILITIES

A less-than-arm's-length lease is one under which one party to the lease agreement is able to control or substantially influence the actions of the other. Such leases include, but are not limited to, those between divisions of a nonprofit organization and nonprofit organizations under common control through common officers, directors, or members.

Rental costs under less-than-arm's-length leases are allowable only up to the amount (as explained in subparagraph 43.b regarding rental costs under "sale and lease back" arrangements) that would be allowed had the title to the property vested in the nonprofit organization (2 CFR part 230, App. B, § 43.c).⁷

Rental costs under "sale and lease back" arrangements are allowable only up to the amount that would be allowed had the nonprofit organization continued to own the property. This amount would include expenses such as depreciation or use allowance, maintenance, taxes, and insurance (2 CFR part 230, App. B, § 43.b).⁸ The computation of use allowances or depreciation must be based on the acquisition cost of the assets involved and must exclude the cost of land (2 CFR part 230, App. B, §§ 11.b and 11.c(1)).⁹ When the depreciation method is used, no depreciation is allowed on an asset that would be viewed as fully depreciated (2 CFR part 230, App. B, § 11.f).¹⁰

⁷ 45 CFR § 75.465(c).

⁸ 45 CFR § 75.465(b).

⁹ 45 CFR § 75.436(c).

¹⁰ 45 CFR § 75.436(d)(4).

We identified less-than-arm’s-length leases for three facilities (Morse, Chase, and Giles) and determined that Heartland charged \$665,333 in unallowable rental costs and \$103,127 in associated indirect costs¹¹ related to these leases. The consolidated financial statement for Heartland Alliance reports Heartland as an affiliate of Heartland Alliance, and designates Heartland Alliance as its sole voting member. The statement further provides that Heartland is the sole member of a single-purpose entity, █████ █████, LLC, which purchased the property.

Heartland leased the Morse and Chase facilities from Heartland Alliance. Heartland leased the Giles facility from █████ █████, LLC. Heartland Alliance has the ability to control or substantially influence the actions of Heartland, as both organizations operate under the control of common officers, directors, and members.¹² Heartland has the ability to control or substantially influence the actions of █████ █████, LLC, as the sole member of the entity. Therefore, the leases between Heartland Alliance, █████ █████, LLC, and Heartland are less-than-arm’s-length leases subject to the limits on rental costs specified in 2 CFR part 230, App. B, section 43.c.

For the three facilities, we reviewed documentation that Heartland provided to support the acquisition costs of the buildings and were able to determine the allowable rental costs on the basis of Federal regulations (2 CFR part 230, App. B, § 43). For the three facilities, we are questioning the difference between the amount claimed by Heartland and the allowable amount using the aforementioned regulations.

Table 1: Difference Between Heartland Claims and Allowable Amount

Facility	Claimed Amount	Allowable Amount ¹³	Difference
Morse	\$33,120	\$1	\$33,119
Chase	124,342	43,321	81,021
Giles	840,000	288,807	551,193
Total	\$997,462	\$332,129	\$665,333

RECOMMENDATIONS

We recommend that Heartland:

- adhere to classroom staffing-to-child ratios in accordance with State regulations,

¹¹ Heartland claimed indirect costs at a rate of 15.5 percent of direct costs.

¹² All three leases included signatures by two individuals with common control, as noted by position titles. One individual was the Heartland Alliance Vice President and the Heartland Executive Director. Another individual was the Heartland Alliance Chief Financial Officer.

¹³ We chose to use the depreciation method in our rental cost computation rather than using the use allowance method because it provided a higher allowable amount than did the use allowance method. Moreover, 45 CFR part 75 does not allow for use allowance as a method of rental cost computation, whereas depreciation was the allowable method under both regulations in effect during our audit period.

- maintain children’s case file documentation in accordance with ORR policy, and
- refund \$768,460 to ORR for unallowable rental costs (\$665,333) and associated indirect costs (\$103,127) incurred under the less-than-arm’s-length lease agreements and limit future rental costs under less-than-arm’s-length lease agreements to the amount that would be allowed under Federal regulations.

HEARTLAND COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE

HEARTLAND COMMENTS

In written comments on our draft report, Heartland generally agreed with our first two recommendations regarding staffing-to-child ratios and maintenance of case file documentation. Heartland did not agree with our third recommendation to refund \$768,460 to ORR for unallowable rental costs.

Heartland stated that there was adequate staff “in the area” of the one classroom with inadequate staffing to meet staffing-to-child ratios, but acknowledged the reported findings and agreed to operate in accordance with applicable standards. Heartland also acknowledged the lack of video monitoring cameras in one classroom and hallway and provided support showing that it had installed cameras in the areas noted in our report after our location visit. Heartland agreed with the findings and recommendation to appropriately maintain children’s case file documentation.

Heartland stated that it did not agree with the recommendation on unallowable rental costs because, according to Heartland, (1) the rental costs for the Morse and Chase facilities were arm’s-length agreements between two separate entities governed by two separate boards of directors, and officers of the two separate facilities executed the leases; (2) the rental costs for Morse, Chase, and Giles were allowable because they were at or below market value and because ORR agreed to them in Heartland’s budgets; (3) Heartland fully disclosed plans to acquire the Giles facility through a U.S. Department of Housing and Urban Development (HUD) loan and made it known to ORR prior to the acquisition that it would need full reimbursement at the lease rates so that it would be able to pay for the associated principal and interest on the loan; and (4) depreciation for the Morse facility, at a minimum, should be provided for the \$175,000 purchase price.

Heartland’s comments are included in their entirety as Appendix F. We excluded 29 pages of documentation provided by Heartland because they contained proprietary information.

OFFICE OF INSPECTOR GENERAL RESPONSE

After reviewing Heartland’s comments, we maintain that the recommendation to refund unallowable rental costs is valid, although there is an opportunity for Heartland to offset questioned costs for the Morse facility by depreciating costs related to the original fair market value of the facility.

We based our finding that the relationship for the Morse and Chase facilities was less-than-arms-length on a number of factors. A less-than-arm’s-length lease is one under which one party to the lease agreement is able to control or substantially influence the actions of the other. In interpreting this provision, the Departmental Appeals Board (DAB) stated that “decisions make clear that the presence or absence of any one circumstance, or any particular combination or quantum of circumstances, does not dictate the outcome. Rather, it is the ‘totality of the overall relationships’ between the parties to the lease that is decisive.”¹⁴

We understand that Heartland is a separate, not-for-profit corporation and that Heartland Alliance has the authority to select the board of directors for Heartland. A DAB decision found that two of five members on a lessor’s board who were also members of the lessee’s board was sufficient for those two common board members to exert influence over the remaining board members.¹⁵ Although Heartland has a number of officers and directors, the chair of the board and another director serve as liaisons with voting rights on the Heartland Alliance board of directors.

Heartland’s articles of incorporation¹⁶ further support the relationship between Heartland and Heartland Alliance. Specifically, the articles state that the purposes for which the corporation is organized are to “carry out the functions of the Heartland Alliance for Human Needs and Human Rights.” Another DAB decision found that an organization that has articles of incorporation that clearly tie the organization to another organization would have factors that are determinative of a less-than-arm’s-length relationship with the other organization.¹⁷

Other factors that support the less-than-arm’s length decision include:

- Heartland Alliance reports that it performs much of its work through four wholly owned subsidiary companies, including Heartland.

¹⁴ *Owens Valley Career Development Center*, DAB No. 2628 (2015) (quoting *Child Opportunity Program*, DAB No. 1700 (1999)).

¹⁵ *Salt Lake Community Action Program*, DAB No. 1261 (1991).

¹⁶ Incorporated as Travelers & Immigrants Aid/Chicago Connections. Name changed in 2003 to Heartland Human Care Services, Inc.

¹⁷ *P.R.I.D.E. in Logan County, Inc.*, DAB No. 1618 (1997).

- Heartland Alliance’s consolidated financial statements and OMB Circular No. A-133 audits show Heartland as an entity of the overall Heartland Alliance organization.
- Heartland Alliance maintains written accounting policies, procedures, and other materials related to the financial and accounting management of its affiliated entities, including Heartland.

We understand the responsibilities of ORR and that it had approved the Heartland budget, but it is not transparent from the budget that the lease payments involved a less-than-arms-length lease. However, the terms and conditions of the Notices of Award incorporate relevant grant administration regulations and the HHS Grants Policy Statement (GPS), with which the grantee must comply. The GPS provides that “[a]ny waivers of or deviations from these terms and conditions must be requested and approved by the GMO [grants management officer].”

Although Heartland references an ORR email chain regarding the acquisition of the Giles facility, the email attachment was not provided with the response. However, we followed up with the HHS Administration for Children and Families (ACF) and Heartland to obtain the referenced email chain. Based on our review of the email and conversations with ACF, we determined that Heartland did notify ORR of plans to purchase the Giles facility but did not obtain a waiver from ORR to purchase the Giles facility and claim the lease payments.

The documentation Heartland provided did not adequately support the purchase price of the Morse facility. The costs of the facility would generally be considered a gift, and Heartland could depreciate the acquisition cost of the facility. Specifically, for an asset donated by a third party, its fair market value at the time of the donation must be considered as the acquisition cost. We do not have access to the fair market value at the time of purchase and therefore cannot compute a value for the Morse facility depreciation. We thus decline to make any changes to our calculation and defer to ACF to determine any necessary adjustments.

APPENDIX A: AUDIT SCOPE AND METHODOLOGY

SCOPE

We reviewed Heartland's health and safety controls to verify that the care provider met applicable safety standards for the care of children in its custody. To determine whether Heartland met applicable safety standards, we (1) inspected two buildings that provided shelter care,¹⁸ (2) reviewed a nonstatistical sample of Heartland's licensing documents and inspection results, (3) reviewed a nonstatistical sample of Heartland's employee files, and (4) reviewed a random sample of case files for those children who had been released to a sponsor during FY 2015 (October 1, 2014, through September 30, 2015).

To verify that Heartland claimed only allowable expenditures, we reviewed (1) a statistical sample of financial transactions; (2) all rental costs for three residential facilities; and (3) Heartland's accounting policies, procedures, and organizational structure. Our review covered \$20 million in direct expenses incurred from October 1, 2014, through September 30, 2015 (audit period). We selected a stratified random sample of 120 financial transactions totaling \$239,415 for review. We also reviewed \$997,462 of claimed rental costs.

We performed our fieldwork at Heartland in Chicago, Illinois, from June 2016 through January 2018. We conducted site visits of shelter care buildings in June 2016.

Our objectives did not require an understanding of all of Heartland's internal controls. We limited our assessment to Heartland controls pertaining to the selected health and safety factors we reviewed. We also reviewed Heartland's internal controls related to its financial management system.

METHODOLOGY

To accomplish our objectives, we:

- reviewed applicable Federal laws, regulations, and guidance;
- reviewed grant documents and policies and procedures maintained at Heartland;
- interviewed Heartland officials and ORR's Federal field specialist assigned to Heartland;
- toured 2 of 7 Heartland sites;
- selected and reviewed a random sample of 75 of 1,095 UAC case files for children released to sponsors during FY 2015;

¹⁸ We visited the International Children's Center and the International Children Crisis Center buildings.

- conducted a review of selected health and safety factors at the 2 sites and noted any deficiencies;
- documented any deficiencies within UAC case files;
- reviewed a nonstatistical sample of 46 of 559 employee files;
- selected a statistical sample of 120 of 21,322 financial transactions that Heartland charged to the grant during FY 2015 (Appendix C);
- reviewed supporting documentation for each sampled transaction (including payments to subcontractors, if applicable);
- reviewed rental costs and associated indirect costs for 3 residential facilities;
- reviewed Heartland’s Federal grant reports—financial and programmatic—for the audit period; and
- discussed our findings with Heartland 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: OFFICE OF REFUGEE RESETTLEMENT REQUIREMENTS

Safety Planning

Policy Guide 3.3.4 Safety Planning

Care providers are responsible for safety planning for the facility as a whole and for developing in-care individual safety plans for those children who have special security concerns.

Care providers must develop a written safety and security plan that includes policies and procedures for all unaccompanied children in its care and for its program staff. The safety plan must address emergency situations covering the following areas: runaways, evacuations (for example due to a hurricane, fire, or other emergency), medical and mental health emergencies, and disease outbreaks.

Care providers and foster care programs must meet the safety requirements of State or local licensing entities, or both; fire code regulations; and local zoning and building code regulations.

Care providers (with the exception of long-term foster care providers) must meet the following minimum safety- and security-related requirements:

- controlled entry and exit from the premises to ensure that unaccompanied children remain within the facility perimeter and to prevent access by the public without proper authorization;
- video monitoring in common and living areas;
- a communications system and alarm system for all areas of the residential structure;
- effective video monitoring of the exterior of the building and surrounding premises, including the ability to permanently download footage when necessary;
- a system for physically counting the residents and a written policy that provides that staff regulate resident movement;
- a daily log on resident population movement (for example, arrivals and departures, room assignments);
- “mirrored windows” or small windows in the doors of any rooms used for one-on-one meetings with the children;

- a facility inspection checklist that includes the safety-related components of all residential operations and program functions;
- quarterly safety assessments that document any deficiencies that could affect the safety of staff or children and corrective action plans for any outstanding deficiencies; and
- spot inspections to note safety concerns through day-to-day observations, which are tracked and incorporated into the quarterly safety assessment.

Other Documentation

P&P Manual § 3.03, Individual Child Assessment

Admission assessment. After reviewing the Initial Intake form and within 3 to 7 days of the UAC's arrival, a Master's level clinician (or equivalent qualified staff person, such as a social worker, counselor, or trained case manager with 5 years of direct client social services experience) must complete the Admission Assessment form.

Case File Management

P&P Manual § 1.02, Case Files

ORR's policy is to ensure that UAC case files are comprehensive, complete, accurate, and up to date, and that confidentiality and security is maintained. Care providers must develop, maintain, and safeguard individual UAC case files and develop an internal policy on staff access and use. This policy must include a system of accountability that ensures completeness and accuracy of files, preserves the confidentiality of client information, and protects the records from unauthorized use or disclosure.

Each UAC case file must contain the following information:

Personal Identifying Information

- name/alien number;
- Initial Intakes Form;
- Placement and Medical Authorization Forms;
- photographs;
- cover sheet that highlights dates of key services provided (admission date, mental health assessments, counseling sessions, medical treatments, transfers, and family reunification/release);

- case information/history from referral source; and
- case notes/log.

Legal Information

- 1-770 Notice of Rights,
- authority to accept child,
- case information referral,
- case history,
- G-28 (if applicable),
- Department of Homeland Security documents,
- court documents, and
- signed release of information (if applicable).

Medical and Mental Health

- Admission Assessment Form,
- Psycho-Social Summary and Individual Service Plan (ISP),
- updates of Psycho-Social Summary and ISP at 90-day intervals,
- Child Trafficking Addendum,
- Secure/Staff-Secure Addendum,
- medical exam (within 48 hours),
- medical records,
- immunization records,
- individual counseling notes,
- group counseling log,

- progress notes related to medical or mental health services,
- signed release of information, and
- copies of referrals to medical providers and results of outpatient consultations.

Care Provider Information

- acknowledgement of orientation program rules/policies/grievance,
- acknowledgement of rights and responsibilities (signed by the child in his or her language),
- Incidents Reports (Internal and ORR),
- telephone log,
- inventory and receipts of cash and personal property,
- stipend log, and
- clothing and supplies distribution log.

Education, Training, and Recreation

- educational assessment,
- education records,
- training records, and
- recreational activity log.

Exit Information

- Family Reunification Packet,
- Transfer Forms, and
- exit letter.

P&P Manual § 3.01, Admission and Orientation – General

Admission procedures must be completed by qualified staff according to the ORR policies and procedures and State licensing requirements. The staff member that conducts the admission procedures must complete an *Initial Intake* form within 24 hours of each UAC's arrival.

P&P Manual § 6.01, Procedures for Non-Chinese and Non-Indian Children

The care provider contacts the sponsor and coordinates the logistics of the release of the UAC. It is mandatory that all the child's possessions and official documents be provided to the sponsor.

Policy Guide § 3.2.1, Admissions for Unaccompanied Children

To identify any of the child's immediate needs or issues, a trained staff member with the care provider must use the *Initial Intakes Assessment* to interview the child within 24 hours of the child's admission to the facility. The *Initial Intakes Assessment* guides the interviewer through a series of questions to obtain information about family members, any immediate medical or mental health concerns, current medications, and any concerns about personal safety that the child may have at that time.

Policy Guide § 3.3.1, UC Assessment and Case Review

Within 7 days of an unaccompanied alien child's admission, a trained staff member conducts an assessment that covers biographic, family, legal/migration, medical, substance abuse, and mental health history (the UAC Assessment).

Policy Guide § 5.6.2, Maintaining Case Files

Care providers must maintain comprehensive, accurate, and up-to-date case files, as well as electronic records on unaccompanied alien children that are kept confidential and secure at all times and must be accessible to ORR upon request. Care providers must have written policies and procedures for organizing and maintaining the content of active and closed case files that incorporate State licensing requirements and/or accrediting agency requirements and ORR policies and procedures.

APPENDIX C: STATISTICAL SAMPLING METHODOLOGY

TARGET POPULATION

The population consisted of direct expenses reported by Heartland under its UAC grants during FY 2015.

SAMPLING FRAME

Heartland provided us an Excel file containing FY 2015 direct expense and indirect cost allocation transactions for each of its UAC grants. There were 102,754 transactions totaling \$24,946,582 that Heartland had recorded as expenditures during FY 2015 for both its residential and home study grants. We manually matched expenditure transactions in the general ledger by verifying accounting system identifiers to remove all transactions that netted to zero. We also removed all indirect costs and transactions valued between (\$100) and \$100 (both debits and credits). As a result, our sample frame contained 21,322 transactions totaling \$19,999,996.

SAMPLE UNIT

The sample unit was a direct expense transaction.

SAMPLE DESIGN

We used a stratified random sample. The sampling frame was divided into four strata. Strata 1 through 4 are defined by accounting code types.

Table 2: Sample Strata

Stratum	Frame Count	Frame Total	Accounting Code Range	Accounting Code Description
1	17,542	\$14,240,973	51010-51121	Salaries & Benefits
2	1,104	649,167	52011-65018	Operating
3	1,193	3,014,757	71010-75015	Property
4	1,483	2,095,099	81010-84000	UC Support
Total	21,322	\$19,999,996		

SAMPLE SIZE

We selected 120 direct expense transactions by randomly selecting 30 transactions from each stratum.

SOURCE OF RANDOM NUMBERS

We used the Office of Inspector General, Office of Audit Services, statistical software to generate the random numbers.

METHOD OF SELECTING SAMPLE ITEMS

We consecutively numbered the sample units in each stratum. After generating the random numbers for each stratum, we selected the corresponding sample units.

ESTIMATION METHODOLOGY

We identified one unallowable lease transaction during our review of the statistical sample items. However, we did not estimate the total amount of expenditures that were unallowable.

**APPENDIX D: SELECTED REQUIREMENTS FOR OFFICE OF REFUGEE RESETTLEMENT
CARE PROVIDER FACILITIES**

Care/Service	Requirement
Initial Intakes Assessment	Within 24 hours of receiving a child, facility staff conduct an assessment to gather information on family members, medical and mental health concerns, medications taken, and personal safety concerns.
Orientation	Within 48 hours of admission, facility staff provide an orientation for the child, including providing information on the care provider's rules, regulations, and procedures; the child's rights and responsibilities; and grievance policies and procedures.
Medical Services	Within 48 hours of arrival, children receive an initial medical examination, unless the child has been transferred from another ORR care provider and has documentation showing that the initial examination has already occurred.
Academic Educational Services	Within 72 hours of admission, the provider must conduct an educational assessment. Facilities must provide 6 hours of education per day, Monday–Friday, throughout the calendar year in basic educational areas (including English as a second language, if applicable).
Proper Physical Care	Children are provided suitable living accommodations, food, appropriate clothing, and personal grooming items.
Individual Child Assessment	Care providers must conduct intake/admission assessments and develop ISPs for UAC to ensure that their needs are accurately assessed and addressed.
Recreational and Leisure Services	Children are to engage in at least 1 hour of large-muscle activity each day and 1 hour per day of structured leisure activity, per a recreational and leisure services plan.
Individual and Group Counseling Services	Children are provided at least one individual counseling session with a trained social worker and two group counseling sessions per week.

Care/Service	Requirement
Legal Services Information	Children are provided information on legal rights and the availability of free legal services.
Reunification Services	Staff are required to identify sponsors and evaluate the suitability of the sponsor.

APPENDIX E: DEFINITIONS

Care provider—A care provider is any ORR-funded program that is licensed, certified, or accredited by an appropriate State agency to provide residential care for children, including shelter, group, foster care, staff-secure, secure, therapeutic, or residential treatment care.

Case manager—The case manager is the care provider staff member who coordinates assessments of UAC, ISPs, and efforts to release unaccompanied children from ORR custody, which includes conducting sponsor background investigations. Case managers also maintain case files for unaccompanied children and ensure that all services for children are documented.

Case coordinators—Case coordinators are ORR nongovernmental contractor field staff who act as a local ORR liaison with care providers and stakeholders and who are responsible for making transfer and release recommendations.

Child sponsor—A child sponsor is an individual (in the majority of cases a parent or other relative) or entity to which ORR releases an unaccompanied child out of Federal custody.

Clinician—The clinician is the care provider staff member who provides clinical services or counseling services, or both, for UAC and provides oversight for their mental and emotional health.

Family Reunification Packet—The family reunification packet is an application and supporting documentation completed by potential sponsors who wish to have an unaccompanied child released from ORR into their care. ORR uses the application and supporting documentation, as well as other procedures, to determine the sponsor's ability to provide for the unaccompanied child's physical and mental well-being.

Legal guardian—A legal guardian is a person who was appointed custody of a child in a court order recognized by U.S. courts.

Federal field specialist—An FFS is a field staff member who acts as the local ORR liaison with care providers and stakeholders. An FFS is assigned to multiple care providers within a specific region and serves as the regional approval authority for UAC transfers and release decisions.

Placements—The term “placement” includes initial placement of UAC into an ORR care provider facility, as well as the transfer of UAC within the ORR network of care.

Release—A release is the ORR-approved release of UAC from the care and custody of ORR to the care of a sponsor.

APPENDIX F: RELATED OFFICE OF INSPECTOR GENERAL REPORTS

Report Title	Report Number	Date Issued
<i>Florence Crittenton Services of Orange County, Inc., Did Not Always Meet Applicable Safety Standards Related to Unaccompanied Alien Children</i>	A-09-16-01005	06/18/2018
<i>BCFS Health and Human Services Did Not Always Comply With Federal Requirements Related to Less-Than-Arm's Length Leases</i>	A-06-16-07007	02/20/2018
<i>Office of Refugee Resettlement Unaccompanied Alien Children Grantee Review – His House</i>	A-04-16-03566	12/04/2017

APPENDIX G: HEARTLAND COMMENTS



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June 29, 2018

Report Number: A-05-16-00038

Ms. Sheri L. Fulcher,
Regional Inspector General for Audit Services
Office of Audit Services
Department of Health and Human Services, Region V
233 North Michigan, Suite 1360
Chicago, Illinois 60601

Re: Heartland Human Care Services, Inc. Response to Office of Inspector General's Draft Report of June 4, 2018 from Sheri L. Fulcher, Regional Inspector General for Audit Services

Dear Ms. Fulcher:

Please accept this correspondence as the response of Heartland Human Care Services, Inc.'s ("HHCS") comments to the Office of Inspector General ("OIG") draft report entitled "Heartland Human Care Services, Inc., Generally Met Safety Standards, But Claimed Unallowable Rental Costs," submitted to HHCS on June 4, 2018. HHCS' comments to the three findings¹ are as follows:

1. Heartland [HHCS] Claimed Unallowable Rental Costs Related to Less-Than-Arm's-Length Leases With Three Facilities.

HHCS is an Illinois not-for-profit corporation recognized as an Internal Revenue Code Section 501(c)(3) tax-exempt charitable organization. HHCS takes seriously its commitment to its donors and other funders to provide various forms of charitable services. HHCS also values its relationship with the Department and the important work it does in relationship to the Unaccompanied Alien Children ("UAC") program. But, HHCS must state at the beginning of these comments that it does not agree with the OIG decision to issue a detrimental financial consequence for HHCS actions undertaken in full transparency to the Department with no financial gain to HHCS or any related persons or entities. There is a scarcity of funding for charitable services in the Chicago area, and the direct effect of the proposed refunding of \$768,460 recommended by your office relative to the UAC program will be that there will be that much less in resources available for the other needed charitable services that HHCS provides.

HHCS did not conceal the activity relating to leases. HHCS and the Department's Office of Refugee Resettlement ("ORR") communicated as to how HHCS would provide the required

¹ The findings are not listed in the same order as the draft report so as to address first the most critical to HHCS' ability to provide services to those in need.

housing via purchase and leases, and the budgets submitted and approved by ORR, and relied on by HHCS, included the lease rents. On an annual basis, HHCS' UAC program budgets have been negotiated and approved by ORR with HHCS being transparent on what constitutes rental expense within its budget. In fulfilling the Department's requests to support its rental costs, HHCS routinely provided market-based studies that have demonstrated its rental costs are below or in line with rental costs for like facilities. (note: Federal Regulation 45 CFR Section 75.308(a) states that "the approved budget for the Federal award summarizes the financial aspects of the project or program as approved during the Federal award process.") HHCS relied on the budgets in its overall efforts to provide a broad array of services to those in need. Going over budget on the UAC program, i.e., being in a \$768,460 deficit on the revenue side, will simply cause HHCS to not be able to provide other needed charitable services.

The draft report finds that the leases between Heartland Alliance² and HHCS for the Morse and Chase facilities were less-than-arm's-length agreements, and, therefore, the rent paid is not an appropriate charge. It makes the determination of less-than-arms-length upon secondary support, i.e., financial statements listing HHCS as an affiliate of Heartland Alliance and an implication that the officers signing the leases for each entity were somehow inappropriate.

The draft report does not make the less-than-arms-length finding upon the governing documents of HHCS or the law applicable to Illinois not-for-profit corporations, which clearly show that HHCS is a separate not-for-profit corporation, the affairs of which, according to Article V, Section 1 of its bylaws (attached), and Section 108.05(a) of the Illinois General Not-for-Profit Corporation Act (the "Act"), are managed by its board of directors. Heartland Alliance *is* the sole member of HHCS, but as provided for in Section 107.03(b) of the Act, members are only given the rights reserved to them in the articles of incorporation and bylaws. The HHCS bylaws provide that Heartland Alliance, as the sole member, has authority to select the board of directors for HHCS, but it is the board of directors of HHCS that have the statutory and governing document authority to manage the affairs of HHCS. HHCS has between 15 and 20 directors, only 2 of whom are also directors of Heartland Alliance.

Footnote 12 of the draft report uses as support that the vice president of Heartland Alliance signing the lease for the lessor, and the executive director of HHCS signing the lease for the lessee, supports the finding that it is less-than-arms-length. But, those are appropriate signatories for each as the lessor and lessee representatives.

It should be noted that HHCS arranged for acquisition of the Giles facility at the urging of the United States Department of Housing and Urban Development ("HUD"). HHCS fully disclosed how it would acquire the property, thereby assuring that the facility would be available for the UAC program, and in a manner that reduced the costs given that real estate taxes could be exempted due to charitable ownership and use. HHCS made it known to ORR prior to the acquisition that to do so it needed full reimbursement at the lease rates so that it would be able to pay for the associated principal and interest on the nonrecourse acquisition loan finance through Lancaster Pollard and guaranteed by HUD. (See attached ORR email chain and HUD Commitment to Insure Mortgage, relative to the Giles acquisition).

² Formally known as Travelers & Immigrants Aid's Heartland Alliance for Human Needs & Human Rights, and with Heartland Alliance being an assumed name.

HHCS relied upon the communications with ORR and the budget approved by ORR. Therefore, its lack of basis by which to charge depreciation for the Morse was not important. But, if it is deemed that the Morse lease was less-than-arms-length, attributing the correct basis to the Morse property becomes important. Attached hereto is the 1993 deed by which Morse was purchased. In the right-hand margin of the deed there can be seen a State of Illinois Transfer Stamp showing that \$175 was paid to the state as the transfer tax on that transfer. What that signifies is that the property was purchased for \$175,000. That is because pursuant to the Section 31-10 of Illinois Real Estate Transfer Tax Law (35 ILCS 200/31-100) the State of Illinois charges 50 cents for each \$500 of the sale price $((175,000/500) \times .50 = 175)$.

We understand that raising the purchase price at this point for depreciation purposes is problematic due to the requirement to allocate the purchase price to building (which is depreciable) versus land (which is not), and to determine the appropriate amortization timeline. It is our understanding that an old rule of thumb is to allocate 10% to land and the rest to buildings, thereby starting with a basis of \$157,500 for the building. It is also our understanding that the longest amortization period for commercial real estate is 39 years, which by our calculation would allow the Morse property to be allowed \$4,038 for depreciation.³

Once again, the OIG decision to require a refunding of \$768,460 will result in HHCS not being able to provide much needed charitable services.

2. Heartland [HHCS] Lacked Appropriate Supervision and Monitoring of Children/Supervisor-to-Child Ratio/Did Not Follow Illinois Regulations/One Building Did Not Meet Federal Policies on Security.

We are pleased that the audit showed that HHCS meets applicable safety standards for the care and release of children in its custody, and that HHCS met state licensure requirements, performed adequate oversight, and followed guidance in its review of investigations.

The draft reports states that HHCS did not have the appropriate number of staff members for overseeing children in one classroom (the ICRCC building). Our response is that there were adequate staff on the floor in the area at that time as evidenced by the attached staff schedule for the date of the facility walkthrough, 6/21/16. There was one other staff member assigned to that group that left briefly, and was replaced within a few minutes. In any event, your issue is acknowledged and you can be sure that we operate in accordance therewith.

The draft report also finds that HHCS did not have video monitoring cameras in one classroom or in the hallway outside the classroom. Prior to the visit, video monitoring cameras had already been ordered. This was a new classroom, converted from an office. Soon after the site visit cameras were installed in those areas (pictures attached).

³ It should be noted that the Morse real estate has been appraised (appraisal summary attached) at \$600,000. Not being compensated for the use of such an asset, dramatically affects HHCS' ability to efficiently provide charitable services to its community.

3. Heartland [HHCS] Was Missing Documentation From Some Case Files/Information Not Dated/Case Files Were Missing Information to Verify That Sponsors Had Been Provided Required Documentation.

While the audit showed that HHCS generally met ORR requirements for document completion and maintenance, and that its quality control checklists were up to date, complete and accurate, we appreciate the audit finding relative to some files not containing complete documentation. After a thorough review, Heartland concurs with the audit findings in this respect and has and will continue to maintain all files in in the appropriate manner.

Summary

HHCS has provided for the shelter of UAC since 1995. We have always prioritized the safety and well-being of children in our care.

The rental costs for the Morse and Chase facilities are allowable because they were arm's-length agreements between two separate entities governed by two separate boards of directors, and leases executed by officers of the two separate entities. The rental costs for Morse and Chase, *and Giles* are allowable as they are at or below market value, and agreed to by ORR in the budgets. HHCS acknowledges control over ownership of Giles, but the transparency regarding the acquisition of Giles, the more than tacit approval thereof by ORR and HUD, and the approval of the budget by ORR justifies HHCS' reliance on it being fully reimbursed pursuant to the budget. Finally, if the Morse rent is not approved, at the very least depreciation should be afforded given the fact that \$175,000 was paid for the property when it was acquired in 1993.

Heartland appreciates the efforts and findings of the OIG auditors relative to the supervision and record keeping and its facilities, in line with its ongoing internal commitment to quality control.

HHCS is open and willing to have additional discussions regarding the issues raised in the draft report. And it is thankful for the opportunity to provide quality care for the children in the UAC program.

Very truly yours,

Heartland Human Care Services, Inc.


By: David Sinski
Its: Executive Director

Enclosures