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**New York State Office of the State Comptroller**  
Thomas P. DiNapoli

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Division of State Government Accountability

# **Oversight of the Supported Housing Program: Rehabilitation Support Services, Inc.**

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## **Office of Mental Health**

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Report 2016-S-5

May 2017

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# Executive Summary

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## Purpose

To determine whether the Office of Mental Health (OMH) is ensuring that Rehabilitation Support Services, Inc. (RSS) expended funds appropriately and provided the required services under its Supported Housing Program contracts. The audit covered the period from January 1, 2014 to August 31, 2016.

## Background

OMH provides services to New York State residents with mental illness both directly (through State-operated facilities) and indirectly (through service providers). OMH offers, among other programs, the Supported Housing Program (Program), which is an initiative to provide stable housing to individuals who have a serious mental illness, but are able to live independently rather than in a facility. Eligible individuals include those discharged from State psychiatric centers and public and private hospitals, as well as other individuals currently in the community who need housing. Clients in the Program receive support services and a subsidy toward their monthly rent to ensure they are able to live independently. The Program provides assistance in locating and securing housing, resolving landlord or roommate disputes, and choosing and purchasing apartment furnishings. Clients who need additional services, such as mental health services, receive them through other programs.

RSS is a Program service provider in upstate New York, serving eight different counties. For calendar year 2014, RSS claimed nearly \$7.8 million in expenses to provide 708 beds for Program clients.

## Key Findings

- OMH has not provided sufficient fiscal oversight or programmatic guidance to Program service providers to ensure that expenses are appropriate and that Program goals are met. Further, OMH has not established meaningful performance measures and has not set targets for the performance measures it has established.
- RSS claimed expenses on its Consolidated Fiscal Report (CFR) that either are not allowable or require additional review by OMH to determine whether they are reasonable and necessary for the Program, in accordance with the CFR Manual and with Program guidance issued by OMH. In total, we identified \$32,271 in unallowable expenses and \$489,616 in questionable costs claimed by RSS. Of these amounts, \$6,282 in unallowable expenses and \$137,836 in questionable costs were charged to the Program; the remainder was charged to other OMH-funded programs operated by RSS.
- RSS is generally providing appropriate Program services to clients, though it does not always ensure that clients are in affordable housing. We identified two clients who were paying more than the fair market value for their housing and another two clients who were paying more than 30 percent of their income for rent, which is the threshold set by OMH.

## Key Recommendations

- Establish controls to ensure that service providers are claiming only reasonable and allowable

expenses on the CFRs for the Supported Housing Program.

- Establish specific quantitative and qualitative goals or targets for all Program performance measures.
- Recover the \$32,271 in expenses (\$6,282 charged to the Program and \$25,989 charged to other OMH-funded programs) we identified as not reasonable, necessary, or allowable for the Program.
- Review the \$489,616 in questionable expenses (\$137,836 charged to the Program and \$351,780 charged to other OMH-funded programs) we identified to determine whether they are reasonable and necessary, and recover any amounts determined to be not allowable.

## Agency Response

In response to our draft report, OMH officials disagreed with our recommendations or asserted that they were unnecessary. Moreover, officials appeared to sidestep the central issue of this audit: the lack of adequate guidance, oversight, and monitoring which allowed RSS to bill for ineligible costs and could have compromised the provision of Program services. RSS is the sixth supported housing service provider that OSC has audited in the past two and a half years, consistently finding that OMH did not provide sufficient fiscal oversight or Program guidance to ensure that claimed costs were appropriate and goals were achieved. Collectively, these audits identified about \$3.2 million in ineligible, unsupported, and/or questionable costs claimed for State reimbursement.

Given the extent of our cumulative audit work, including the consistent and significant nature of the resulting findings, we are disappointed that OMH officials have taken a dismissive and defensive posture toward this important matter. Officials' apparent inability to recognize the clear need for substantive corrective actions could be indicative of a negative "tone at the top" of the agency. It also reflects a control environment wherein OMH officials have placed excessive trust in certain service providers to properly handle State taxpayer dollars. Our recommendations are intended to enhance internal controls to ensure that limited public funding is used economically and efficiently to provide stable housing to a vulnerable population. These controls include mechanisms to ensure that Program costs are reasonable and necessary.

## Other Related Audits/Reports of Interest

[Office of Mental Health: Sky Light Center Inc.: Supported Housing Program \(2012-S-37\)](#)

[Office of Mental Health: Assertive Community Treatment Program \(2014-S-25\)](#)

**State of New York  
Office of the State Comptroller**

**Division of State Government Accountability**

May 4, 2017

Ann Marie T. Sullivan, M.D.  
Commissioner  
Office of Mental Health  
44 Holland Avenue  
Albany, NY 12229

Dear Dr. Sullivan:

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

Following is a report of our audit of the Office of Mental Health entitled *Oversight of the Supported Housing Program: Rehabilitation Support Services, Inc.* The audit was performed pursuant to the State Comptroller's authority as set forth in Article V, Section 1 of the State Constitution and Article II, Section 8 of the State Finance Law.

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

Respectfully submitted,

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

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This report is also available on our website at: [www.osc.state.ny.us](http://www.osc.state.ny.us)

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## Background

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The Office of Mental Health (OMH) provides services to New York State residents with mental illness both directly (through State-operated facilities) and indirectly (through service providers). OMH offers, among other programs, the Supported Housing Program (Program), which is an initiative to provide stable housing to individuals who have a serious mental illness, but are able to live independently rather than in a facility. Eligible individuals include those discharged from State psychiatric centers and public and private hospitals, as well as other individuals currently in the community who need housing. Clients in the Program receive support services and a subsidy toward their monthly rent to ensure they are able to live independently. The Program provides assistance in locating and securing housing, resolving landlord or roommate disputes, and choosing and purchasing furnishings. Clients who need additional services, such as mental health services, receive them through other programs.

OMH largely measures Program service providers' performance in terms of the number of beds made available. Service providers receive an annual stipend, paid in advance in quarterly installments. The total amount paid to each service provider is based on the number of beds the service provider is contracted for, and OMH does an end-of-year reconciliation of the actual beds provided and will recover any stipends paid for beds not provided. Some service providers contract directly with OMH; others contract with counties, which receive Program funding from OMH. Rehabilitation Support Services, Inc. (RSS) has contracts with both OMH and the counties of Albany, Schenectady, Otsego, Dutchess, Orange, Sullivan, Tioga, and Schoharie to provide Program services.

Each Program service provider, including RSS, must submit an annual Consolidated Fiscal Report (CFR) to OMH, completed in accordance with rules set forth in the New York State Consolidated Fiscal Reporting and Claiming Manual (Manual), including its appendices. The CFR, which is used by several State agencies, shows all the revenues and expenses of the entity broken down by program and site. Because several State agencies require CFRs, the Manual is not specific to any one program, though State agencies may provide specific guidance to their service providers for their respective programs, either as an appendix or as separately issued guidance (such as the State Education Department's Reimbursable Cost Manual). OMH has two pieces of separately issued guidance for its Program service providers: the Aid to Localities Spending Plan Guidelines and the Supported Housing Guidelines, the 2015 edition of which also includes a Questions and Answers supplement.

For the 12-month period ending December 31, 2014, service providers claimed a total of \$175.9 million in Program expenses to provide a total of 17,660 beds statewide. Of that amount, RSS claimed nearly \$7.8 million to provide 708 beds for Program clients in the eight counties it serves.

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## Audit Findings and Recommendations

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The goal of the Program is to provide permanent housing to those with serious mental illness by helping them integrate into the local community. RSS assists clients by locating suitable housing, supplementing rental payments, and providing other support services. We found that RSS is generally providing appropriate housing and services for its clients. However, RSS did not follow OMH guidelines for calculations on certain rental stipend worksheets. As a result, some clients paid more for rent and utilities than the limits established by OMH. We also determined RSS included expenses on its CFR that were not allowable under the Manual or OMH guidelines or that require additional review by OMH to determine whether they are reasonable and necessary for the Program. In total, we identified \$32,271 in unallowable costs and \$489,616 in questionable costs that OMH will have to review. Of these amounts, \$6,282 in unallowable expenses and \$137,836 in questionable expenses were charged to the Program, and the remainders were charged to other OMH-funded programs operated by RSS.

We found that OMH did not provide sufficient fiscal oversight and programmatic guidance to Program service providers to ensure that claimed expenses are Program appropriate and that certain Program goals are met. Further, OMH guidance regarding eligible expenses is insufficient – often silent or vague and sometimes contradictory, leading to confusion for service providers.

### Fiscal Oversight

According to the Manual, when submitting annual CFRs, service providers must also submit their general purpose financial statements. However, with the exception of certain items on the CFR, service providers are not required to provide supporting documentation for their claimed expenses, but rather must retain the documentation in their files and make the documentation available to OMH upon request. OMH reviews the CFRs to ensure that they are complete and that amounts on the financial statements match those reported on the CFR. While OMH performs limited desk reviews of the CFRs, it usually does not request supporting documentation from service providers. Without supporting documentation, OMH has limited ability to determine whether expenses are reasonable and necessary for the Program.

As the oversight agency for the Program, it is OMH's responsibility to ensure that service providers claim only allowable Program expenses on their CFRs. According to OMH officials, OMH relies on the service providers' Certified Public Accountants (CPAs) to verify that the claimed expenses are reasonable and necessary, and are in accordance with the guidelines for the Program. However, as stated in both the Manual and on the CPA certification included on the CFR, while the CPAs test certain amounts reported on the CFR, they do not determine whether all expenses are allowable in accordance with guidance for each individual program. Instead, the CPAs perform limited testing on the total expenses for the entire CFR and affirm that the CFRs were completed in accordance with the CFR Manual (including its appendices).

Further, we found inconsistencies in the Program guidance from OMH. In 2014 and 2015, OMH issued Supported Housing Guidelines, including a Questions and Answers supplement issued in

2015. The 2014 and 2015 Supported Housing Guidelines both state that service providers should set aside \$500 per year per client from the annual stipend in a contingency fund, which is used to help clients remain in their housing should an emergency arise. According to OMH officials, this is not a requirement. However, the 2015 Questions and Answers supplement specifically states in its answer to Question 42: “For the Scattered-site Supported Housing units, setting aside \$500 per year per consumer in contingency is *required* [emphasis added].” Scattered-site Supported Housing units, according to the glossary in the 2015 Supported Housing Guidelines, are “rented apartments scattered throughout the community,” which is how RSS places its Program clients.

We also found inconsistencies between OMH’s guidance on what services are allowed and what RSS actually provides to its clients. RSS offers Program services to certain populations that are at a higher risk for failing to live independently and so require additional support. These groups include individuals who were hospitalized at a psychiatric hospital for at least six months, individuals who have substance abuse issues in addition to their mental illness, and individuals who are transitioning from children’s services to adult programs. To help these clients live independently, RSS may, for example, need to teach them how to properly take medication or provide a licensed nurse to assist them. Although the Supported Housing Guidelines do not specifically address medical services, the 2015 Question and Answers supplement specifically states in response to Question 7: “Using the Supported Housing contract to cover health care services such as medication education or yoga as well as medical staff *is not viewed as an appropriate use of OMH Supported Housing funds* [emphasis added].” Nevertheless, OMH allows RSS to provide such services (under its contracts with the counties) to its Program clients, and has allowed RSS to claim the costs of those services as a Program expense on its CFR.

OMH is not exercising consistent fiscal oversight of its more than 150 Program service providers. Consequently, every service provider across the State is left to decide on its own how to interpret and implement the broad guidance, thus increasing the risk of claimed expenditures that are not consistent with Program intent and inconsistencies among service providers. OMH should review the Manual (including its appendices) to identify and create the necessary supplemental guidance on allowable Program costs to help ensure that all service providers’ reported expenses are allowable.

## Recommendations

1. Issue clear and specific guidance to service providers on allowable Program expenses that may be reported on the CFR.
2. Establish controls to ensure that service providers are claiming only reasonable and allowable expenses on the CFRs for the Supported Housing Program.
3. Ensure all Program guidance materials, including supplemental information such as the 2015 Questions and Answers document, are consistent with each other and with Program goals.
4. Ensure that contracts with Program service providers comply with Program guidance.



## Programmatic Oversight

### *Beds and Occupancy Rates*

OMH largely measures Program service providers' performance in terms of the number of beds made available, establishing an occupancy goal of 90 percent. OMH has other quantitative performance measures – such as the median length of stay – that have no set goals or targets. Program service providers report when clients are admitted to and discharged from the Program. They enter this information into the Child and Adult Integrated Reporting System (CAIRS). OMH uses the information from CAIRS in quarterly and annual Residential Performance Indicator Reports (RPIs) that are made available to the counties and the public. However, OMH does not routinely verify the performance information that the Program service providers self-report in CAIRS, even though it relies on that information for its RPIs.

OMH requires Program service providers to report admission and discharge information, but does not use this information to monitor Program results. Program funding is not tied to Program service provider performance, and OMH does not take action when a Program service provider underperforms other than to recover any annual stipends paid for beds not provided. The following table shows the number of beds and the occupancy rate reported by RSS for 2013, 2014, and 2015, according to the RPIs.

#### **Beds and Occupancy Rate for 2013 through 2015**

Year	Beds	Occupancy Rate
2013	678	83.1%
2014	708	90.2%
2015	768	85.6%

Although RSS was below OMH's goal of 90 percent occupancy in 2013, OMH still increased the number of beds RSS was contracted to provide in 2014 and again in 2015. While the occupancy rate rose in 2014, it again declined in 2015. OMH should determine which RSS beds were not filled, including the reason for the declines in occupancy rates, and use the information to determine whether and to what extent funds and bed allocations should be shifted to other RSS program housing options or another service provider.

We also note that OMH has not updated the RPI reports on its website since 2013. OMH officials indicated they had a problem with the website portal, which is still under repair. This issue notwithstanding, RPI data information should be readily available for interested parties, and we recommend that OMH manually post the reports as PDFs or HTML documents until the problem is corrected.

### *Other Performance Measures*

The performance measures OMH currently uses do not reflect the primary goal of the Program, which is to assist clients to live independently, nor do they measure specific elements of the

Program, such as visits to clients or achievement of client goals. Additional performance measures would assist OMH and the counties to provide better oversight of their service providers. Without targets for the performance measures, OMH is not able to evaluate whether a service provider is meeting expectations or how a service provider compares to other service providers in its area. Certain counties have additional performance measures and goals that they use to assess Program service provider performance. These performance measures supplement OMH's performance measures and provide a more complete picture of overall Program performance.

Albany County, for instance, requires its Program service providers to develop their own performance measures and targets. The performance measures are both quantitative (e.g., clients will increase attendance at treatment appointments and clinical programs by 25 percent) and qualitative (e.g., clients will gain the ability to maintain a clean apartment) in nature. Program service providers report the results of their performance targets biannually to Albany County.

Orange County requires Program service providers to complete scorecards, which are then assessed by the County to determine the success of the Program. The scorecard has performance measures that are also both quantitative and qualitative in nature, including:

- Number of arrests;
- Number of crisis contacts;
- Number of hospital inpatient admissions for rehabilitation;
- Number of home visits; and
- Number of clients who met 50 percent of their goals at discharge.

OMH would be in a better position to assess the performance of the Program if it developed similar measures to more fully assess qualitative performance.

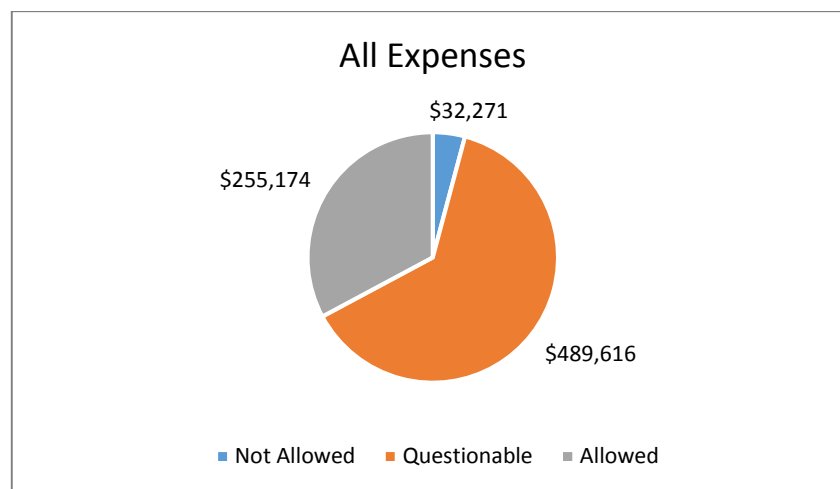
## Recommendations

5. Establish specific quantitative and qualitative goals or targets for all Program performance measures.
6. Ensure the accuracy of the information reported by service providers through CAIRS.
7. Provide current RPI data to the public.
8. Evaluate the performance of Program service providers, and take appropriate action when a Program service provider is not meeting Program goals.
9. Develop additional Program-specific quantitative and qualitative performance measures for all service providers, regardless of whether they receive funding through a county or directly from OMH.

## Program Expenses Claimed by RSS

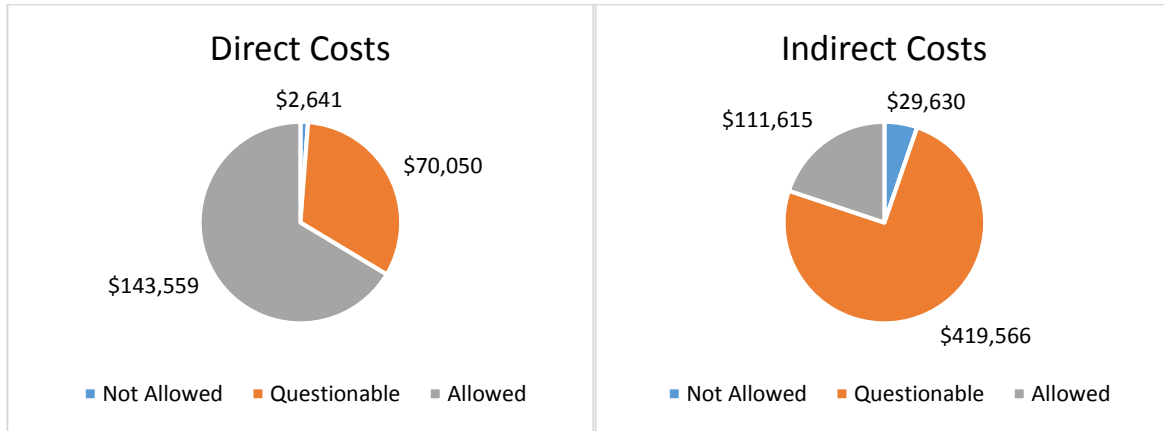
From the \$7.8 million in Program expenses claimed by RSS for 2014, we judgmentally selected a sample of 60 transactions totaling \$199,848 from RSS records, and reviewed the supporting documentation to determine if the transactions were reasonable and appropriate Program expenditures, based on the Manual and on OMH Program guidance. Based on our review, we then identified additional transactions totaling \$577,213 that were similar in detail to those in our sample. In total, we evaluated \$777,061 in expenses claimed in 2014 to determine whether they were reasonable and necessary for the Program. We identified \$255,174 in allowable expenses, \$32,271 in non-allowable expenses, and \$489,616 in questionable expenses that will require additional review by OMH (see Chart 1).

**Chart 1**  
**Results of Transaction Review**



Of the \$777,061 that we reviewed, \$216,250 was for costs incurred to provide services and \$560,811 was for administrative costs incurred by RSS and then allocated to the Program. Chart 2 shows the allowable, not allowable, and questionable expenses for both direct costs of providing services and indirect allocated administrative costs.

**Chart 2**  
**Allowable, Not Allowable, and Questionable Expenses by**  
**Direct and Indirect Costs**



RSS incurs expenses that are attributable to many different programs and therefore charges a portion of the total expense to each program. As a result, for the expenses we identified as either not allowable or questionable, we found a portion was charged to other OMH-funded programs. Our findings indicate both the total amount and the amount charged to the Program.

### *Expenses Not Allowable*

We identified \$32,271 in expenses that are not allowable, reasonable, or necessary expenditures, based on Appendix X of the Manual, as follows:

- \$16,872 for a half-day RSS Board retreat held in Lake Placid in June 2014. The retreat started with a lunch, and then the Board had an afternoon meeting followed by a cocktail hour and dinner. In addition, attendees stayed at the hotel (including some who stayed for two nights), even though there were no meetings on the following day. Appendix X specifically prohibits alcoholic beverages as well as expenses that are entertainment in nature. According to RSS officials, they arranged for a package rate for the meeting. As a result, they are not able break out the cost of alcoholic beverages separately. However, because this event appears to have been largely entertainment in nature, we are disallowing the costs of the entire event.
- \$14,170 for a holiday party, coffee and other food items unrelated to providing client services, and flowers for staff. Appendix X specifically excludes expenses that are primarily entertainment in nature, and OMH officials have stated that food and other items for staff are not an appropriate Program expense.
- \$1,129 for flowers and plaques given to individuals who spoke at RSS events or visited community residences. Appendix X specifically excludes expenses that are primarily entertainment in nature, as well as the costs of gifts intended to show respect and express admiration for the recipient.
- \$100 for a charitable contribution to another entity. Appendix X specifically excludes the

costs of monetary contributions made by a service provider to another entity, including charitable contributions.

Of these \$32,271 in expenses not allowable, \$6,282 was charged to the Program and the remainder (\$25,989) was charged to other OMH-funded programs.

### *Questionable Expenses*

We identified \$489,616 in questionable expenses claimed by RSS in 2014. These expenses may be reasonable and necessary for the Program, but require additional review by OMH to make a final determination, including the correct amount that should be claimed. These questionable expenses include:

- **\$319,777 for contracts that were not competitively bid**: OMH guidelines require service providers to obtain bids for contracts exceeding \$25,000, and RSS requires competitive bids for contracts in excess of \$5,000. However, according to RSS officials, they often select contracts based on expertise and reputation in the field, especially for IT services. Further, they believe that there are cost savings and efficiency benefits associated with maintaining certain professional service relationships over an extended period of time. We identified four vendors – three for IT services and one for legal services – that had been awarded contracts valued at more than \$25,000 without a competitive bidding process. We identified a fifth vendor – for accounting services – that had also been awarded a contract valued at more than \$25,000 that was last competitively bid in 2003. OMH needs to review these contracts to determine whether it is paying more than it would have if RSS had competitively bid them, as required by OMH guidelines.
- **\$83,805 for payments made to related parties**: The Manual requires that service providers report related-party transactions on the CFR and charge the State the lower of the actual cost or the fair market value for these expenses (the “lesser-of” rule). According to Appendix A of the Manual, a related party is one in which “one party has the ability to significantly influence management or operating policies of the other.” We identified three related-party vendors that were not reported as such on the CFR. Two of the three are entities created by RSS to provide work training and employment for clients. These entities, Pie in the Sky and Teamwork, which were paid \$9,137 and \$63,688 respectively, provided services on an as-needed basis (one for catering and one for construction) to both RSS and external customers. In addition to not reporting these as related parties on the CFR, RSS did not have any documentation to show that the amount charged to the State met the “lesser-of” rule. RSS does not consider these entities to be affiliates, but rather programs operated by RSS that provide services. However, we concluded that these entities were related parties, as defined by Appendix A of the Manual. Also, a law firm had a contract to provide legal services to RSS, and a senior member of that law firm serves on RSS’ board. In addition to not reporting this as a related party on the CFR, RSS did not competitively bid the contract, though the total value of the contract (\$10,980) exceeded the \$5,000 threshold required by RSS procurement policies.

- **\$32,477 for food for clients and staff**: According to OMH officials, food purchased for staff is not an acceptable expense of the Program but food purchased for clients could be, especially if purchased to help a client remain in independent housing. We identified a number of transactions involving food purchases, including several for staff meetings or other purposes, that appear unrelated to assisting clients. Further, the OMH Program guidelines state that service providers are not expected to provide all necessary services to clients but instead should assist clients in linking to community support systems, which would include programs such as local food pantries and emergency SNAP benefits. While RSS had receipts from purchases made at grocery stores and also from restaurants, it did not have documentation to show for which clients the food was purchased or why the clients needed to have food provided using Program funds. OMH should review these transactions to determine whether the items purchased were appropriate and for clients rather than staff. RSS may also want to consider whether other funds should have been used, including the \$500 in contingency funds RSS should set aside from its annual per-bed stipend.
- **\$23,944 for unnecessary storage units**: RSS leases several storage units, primarily for record retention purposes. We visited these units, and determined that some were no longer needed, because the items in the units either were not records or were records that were no longer needed. RSS concurred with our assessment, and terminated the leases.
- **\$21,971 for various events held to celebrate “May is Mental Health Month”**: Each year, RSS celebrates “May is Mental Health Month” with events for its staff, clients, and others. One of these events is a Speakers Recognition Dinner that cost \$10,366 for 347 dinners and a reception for 100 people, and another \$3,808 for other expenses. RSS sold advertising for the event brochure and used the \$9,466 it received to offset a portion of the costs of this event. Another event was a poster contest that included lunch for 500 people at a cost of \$7,500. OMH and RSS officials stated that these events – and others held for “May is Mental Health Month” – provide clients with an opportunity to socialize and further integrate with the community. However, these events appear to be primarily for entertainment, which is not allowed according to Appendix X of the Manual. OMH should review the costs of these events to determine which are allowable, and then determine the correct amount to be allocated to the Program and to other OMH-funded programs operated by RSS.
- **\$7,642 for gift cards**: RSS and OMH officials told us that gift cards could be an acceptable way to help clients purchase essentials during the year, because the cards could encourage independence in selecting and making purchases. However, internal RSS documents referred to most of the gift cards as holiday gifts, and not for client assistance. As OMH has not issued guidance on gift cards, the only guidance for service providers would be the Manual. The Manual does not specifically address gift cards, but Appendix X does state that if neither the Manual nor State codes, rules, and regulations address an issue, the Provider Reimbursement Manual (PRM-15) applies. Although the PRM-15 is published by the Centers for Medicare and Medicaid Services, its provisions would appear to apply to

all State programs reported on the CFR, regardless of whether they receive Medicare or Medicaid funding. According to the PRM-15, gifts are not necessary program costs if they are not common or accepted occurrences in the service provider's field of activity.

OMH does not have specific guidance indicating under what circumstances providing gift cards to Program clients would be an acceptable way to help clients achieve independence or even that gift cards are an allowable cost of the Program. Therefore, we looked at other agencies to see what their guidance said about giving gifts to individuals in their programs. The New York State Education Department, which also requires service providers to submit CFRs, has issued guidance that strictly prohibits claiming the cost of gifts as an allowable expense for its programs. OMH should review the gift card expenses claimed by RSS to determine whether the gift cards were used to help clients learn to live independently. OMH should also require Program service providers to document who received a gift card and why a gift card was the most appropriate way to provide the necessary support. Since gift cards are highly susceptible to fraud (including being sold for cash), OMH should also require service providers that chose to use gift cards to obtain receipts from the clients who receive them, as evidence that the clients used them as intended. Further, there is a risk that some of the gift cards may have been purchased for staff rather than clients, which would clearly violate the PRM-15.

Of these \$489,616 in questionable expenses, \$137,836 was charged to the Program and the remainder was charged to other OMH-funded programs.

## Recommendations

10. Recover the \$32,271 in expenses (\$6,282 charged to the Program and \$25,989 charged to other OMH-funded programs) we identified as not reasonable, necessary, or allowable for the Program.
11. Review the \$489,616 in questionable expenses (\$137,836 charged to the Program and \$351,780 charged to other OMH-funded programs) we identified to determine whether they are reasonable and necessary, and recover any amounts determined to be not allowable.
12. Require service providers to rebid competitively bid contracts periodically or demonstrate that the contract remains competitively priced.
13. Ensure that service providers properly report all related-party transactions on their CFRs.
14. Develop guidance for gift cards that, at a minimum, requires service providers to:
  - Document which clients received gift cards, including vendor and amount;
  - Document the reason a gift card was considered appropriate to assist the client; and
  - Obtain receipts or other evidence that the client used the gift card for its intended purpose.

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## Services Provided by RSS

### *Review of Case Files and Rental Stipend Worksheets*

To assess whether RSS provided appropriate services for its clients, we randomly selected and reviewed the case files of 27 clients from different programs in three different counties (Albany, Orange, and Otsego). Of these clients, 20 also allowed us to visit them in their homes.

We found RSS housing specialists were generally providing the necessary services by meeting the clients in person at least once a month (and frequently more often) and they were visiting their clients at home at least once every quarter. RSS housing specialists assess clients' needs and develop support plans to help clients receive the necessary supports required to integrate into the community including: establishing and maintaining a household; applying for assistance programs; assisting with budgeting finances; and securing transportation.

Housing specialists also complete rental stipend worksheets with each client on an annual basis or whenever a significant change in income occurs. The worksheet is used in determining the amount of rent the client is responsible for paying. RSS supplements that amount with a rental stipend from the annual Program stipend it receives from OMH. OMH limits the amount a client can pay to 30 percent of the client's income. According to OMH officials, service providers should be using about 70 percent of the annual per-client stipends to supplement rents and the rest to provide other services necessary to remain in independent housing. The client is entitled to a reduction in their share of the rental payment to allow for a reasonable amount of utilities when utilities are not included in the rent. OMH requires service providers to seek prior approval for rents over the fair market value or for clients to pay more than 30 percent of their income toward rent.

Our review of clients' case files for 2014 and 2015 found that worksheets were not always updated when a client's income changed significantly and that housing specialists did not always apply a reduction when rent did not include utilities. We also found two clients who were paying more than fair market value for their rent and two clients who were paying more than 30 percent of their income toward rent, none of whom had been pre-approved by OMH. According to RSS officials, the two clients paying more than fair market value did so before OMH required pre-approval and the two clients paying more than 30 percent of their income toward rent are now no longer doing so.

OMH does not regularly visit service providers to review case files. As a result, OMH is not able to identify if the rents are being calculated correctly on the rental stipend worksheets or if clients are exceeding either fair market value or the 30 percent of income threshold without the required pre-approvals from OMH.

### *Establishing Households*

When a client enters the Program, the service provider is expected to assist the client in establishing



a household. For some clients, this may involve helping them to choose and purchase furniture and other household items. According to OMH guidelines, once purchased with Program funds, these items immediately become the property of the client. However, rather than considering the items to be client property when they are first provided, RSS instead requires clients to both remain in the Program for one year and pay one dollar total for all items provided. Further, for clients in Dutchess County, the contract between RSS and the county requires RSS to keep any furniture provided to clients who leave the Program after less than a year. OMH should clarify how to handle furniture, including what is expected of Program service providers when county guidelines conflict with OMH's guidelines.

## Recommendations

15. Ensure that Program service providers are correctly completing rental stipend worksheets.
16. Ensure that Program service providers obtain the required pre-approvals for clients to pay more than fair market value and/or more than 30 percent of their income for rent.
17. Revise the OMH guidelines to provide clear direction to all Program service providers, including whether OMH or county guidelines should take precedence.

## Audit Scope, Objective, and Methodology

We audited whether OMH is ensuring that RSS expended funds appropriately and provided the required services under the Supported Housing Program contracts. The audit covered the period from January 1, 2014 to August 31, 2016.

To accomplish our objective and evaluate the relevant controls in place, we interviewed officials at OMH, RSS, and Orange, Albany, and Otsego counties. We reviewed the CFR Manual and its related appendices, OMH regulations and other pertinent laws, OMH guidance for the Program, and other applicable guidance. We also reviewed the CFR submitted by RSS and its financial statements for 2014 and case files for programmatic services provided through August 2016.

We reviewed the supporting documentation for a judgmentally selected sample of Program and administrative transactions reported by RSS on its calendar year 2014 CFR. Our sample was based on categories of expenses that appeared at risk of being inappropriate and/or unreasonable expenses for the Program. We also selected a judgmental sample of counties to visit and a judgmental sample of targeted populations within those counties, and then randomly selected 27 clients from those targeted populations. We reviewed the individual case files for all 27 clients and made site visits to 20 who agreed to allow us to visit their homes.

We conducted our performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe the evidence obtained provides a reasonable basis for our findings

and conclusions based on our audit objective.

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

## Authority

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This audit was performed pursuant to the State Comptroller's authority as set forth in Article V, Section I of the State Constitution and Article II, Section 8 of the State Finance Law.

## Reporting Requirements

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A draft copy of this report was provided to OMH officials for their review and formal comment. Their comments were considered in preparing this final report and are attached in their entirety to it. Our rejoinders to certain OMH comments are included in the report's State Comptroller's Comments.

In their response, OMH officials disagreed with the audit's recommendations or asserted that they were unnecessary. Officials also questioned the extent of the State Comptroller's Constitutional authority as well as the auditors' qualifications and ability to interpret statutes, regulations, and policies. Moreover, officials appeared to sidestep the central issue of this audit: the lack of adequate guidance, oversight, and monitoring which allowed RSS to bill for ineligible costs and could have compromised the provision of Program services. RSS is the sixth supported housing service provider that OSC has audited in the past two and a half years, consistently finding that OMH did not provide sufficient fiscal oversight or Program guidance to ensure that claimed costs were appropriate and goals were achieved. Collectively, these audits identified about \$3.2 million in ineligible, unsupported, and/or questionable costs claimed for State reimbursement.

Given the extent of our cumulative audit work, including the consistent and significant nature of the resulting findings, we are disappointed that OMH officials have taken a dismissive and defensive posture toward this important matter. Officials' apparent inability to recognize the obvious need for substantive corrective actions could be indicative of a negative "tone at the top" of the agency. It also reflects a control environment wherein OMH officials have placed excessive trust in service providers to properly handle State taxpayer dollars. Under such circumstances, there was material risk that certain service providers would exploit this environment for their own benefit.

The report's recommendations are intended to enhance internal controls to ensure that limited public funding is used economically and efficiently to provide stable housing to a vulnerable population. These controls include communicating clearly to supported housing service providers the services that must be provided, as well as mechanisms to ensure that Program costs are reasonable and necessary.

Within 90 days after final release of this report, as required by Section 170 of the Executive Law, the Commissioner of the Office of Mental Health shall report to the Governor, the State Comptroller, and the leaders of the Legislature and its fiscal committees, advising what steps were taken to implement the recommendations contained herein, and if the recommendations were not implemented, the reasons why.

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## Contributors to This Report

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### Vision

A team of accountability experts respected for providing information that decision makers value.

### Mission

To improve government operations by conducting independent audits, reviews and evaluations of New York State and New York City taxpayer financed programs.

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# Agency Comments

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Office of  
Mental Health

ANDREW M. CUOMO  
Governor

ANN MARIE T. SULLIVAN, M.D.  
Commissioner

MARTHA SCHAEFER  
Executive Deputy Commissioner

December 1, 2016

John Buyce, CPA  
Audit Director  
Office of the State Comptroller  
Division of State Government Accountability  
110 State Street – 11<sup>th</sup> Floor  
Albany, NY 12236-0001

Dear Mr. Buyce:

The Office of Mental Health has reviewed the Office of the State Comptroller's (OSC's) draft audit report entitled, "Oversight of the Supported Housing Program: Rehabilitation Support Services, Inc." (2016-S-5). Our comments to the findings and recommendations are enclosed.

Sincerely yours,

Martha Schaefer  
Executive Deputy Commissioner

**OFFICE OF MENTAL HEALTH  
RESPONSE TO OFFICE OF THE STATE COMPTROLLER  
DRAFT REPORT 2016-S-5  
OVERSIGHT OF THE SUPPORTED HOUSING PROGRAM:  
REHABILITATION SUPPORT SERVICES, INC.**

The Office of Mental Health (OMH) takes issue with several of the draft findings and recommendations in the Office of the State Comptroller's (OSC) draft report (2016-S-5) entitled "Oversight of the Supported Housing Program: Rehabilitation Support Services, Inc." The purpose of this audit was to determine whether or not OMH is ensuring that Rehabilitation Support Services, Inc. (RSS) expensed funds appropriately and provided the required services under its supported housing program contracts.

However, OSC went beyond evaluating contract compliance and ventured in to making policy determinations regarding program monitoring and reporting. Not only does this improperly exceed OSC's constitutional authority, a review of the findings demonstrates that OSC does not have the necessary expertise to make such findings. Accordingly, OMH soundly rejects OSC's decision to analyze issues beyond its constitutional authority and outside of OSC's expertise, and takes issues with the facts upon which OSC bases its programmatic assumptions.

**I. OMH Overall Comments**

First, OSC's audit is flawed because it goes beyond OSC's authority as set forth in in NYS Constitution Article 5, Section 1. OSC is authorized only to "(1) to audit all vouchers before payment and all official accounts; (2) to audit the accrual and collection of all revenues and receipts; and (3) to prescribe such methods of accounting as are necessary for the performance of the foregoing duties." In other words, OSC is authorized only to audit whether OMH properly ensured that contracted services were provided and that only appropriate and supported expenses were reimbursed.

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OSC went beyond its constitutional authority by evaluating the quality of programmatic benchmarks made by trained health care professionals. OSC has no clinical expertise, should not be second-guessing trained medical experts, and should certainly not be making any findings based on those assessments.

Second, OMH strongly refutes OSC's sweeping conclusion that "OMH did not provide sufficient fiscal oversight and programmatic guidance to Program providers to ensure that claimed expenses are Program appropriate and that certain Program goals were met" and requests that it be stricken from the final audit report.

OMH has a rigorous oversight process to ensure that claimed expenses are program appropriate and to maximize achievement of program goals. OMH field offices review all supported housing agencies to evaluate each agency's adherence to the State's Supported Housing Guidelines (SH Guidelines). These reviews include: (1) visits with consumers/apartments; (2) a review of case records; (3) examination of policies and procedures; and (4) a review of occupancy, governance, health and safety, finance, and advocacy. OMH also provides technical assistance. After the review, OMH personnel hold a summation conference with the agency to discuss any findings. When an issue related to resident safety arises, the field office follows up directly with the agency and includes other appropriate parties, such as the county Single Point of Access. The field office works with all involved parties to ensure any issues are resolved.

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\*See State Comptroller's Comments, page 30.

In addition to program reviews conducted by its field offices, OMH utilizes many guidance and monitoring tools including the SH Guidelines, the Aid to Localities Spending Plan Guidelines, CPA-prepared certified financial statements, the contract close-out process performed by OMH’s Office of Community Budget and Financial Management, and the submission of the Consolidated Fiscal Report (CFR). CFRs are CPA-certified and providers are afforded training on proper preparation and filing.

**II. OMH Comments to OSC Audit Statements**

- **OSC’s Assumption that OMH Does not Request Supporting Documentation for CFRs:** On page 6, third paragraph, OSC states, “While OMH performs limited desk reviews of the CFRs, it usually does not request supporting documentation from providers.”

**OMH Comments:** This statement is inaccurate. OMH requests documentation of expenditures anytime the CFR appears to contain errors or irregularities, or anytime the CFR shows large changes in reported expenditures from previous years. Although the limited staff available to OMH cannot review supplemental documentation for every single one of the 800 providers that hold more than 700 OMH contracts, such documentation is requested whenever necessary.

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- **OSC Misunderstands that Providers Are Not Required to Set Aside Contingency Funds:** On page 7, first paragraph, OSC states that the 2014 and 2015 SH Guidelines indicate that providers should set aside \$500 in contingency funds for each client from the annual stipend. The paragraph goes on to say that “the 2015 Questions and Answers supplement specifically states that service providers are required to set aside contingency funds for clients living in the community (rather than a facility), which is how RSS places its program clients.”

**OMH Comments:** Budget constraints that are due to increasing program expenses often limit the ability of providers to set aside contingency funds and therefore the SH Guidelines state that “contingency funds *should* be set aside annually from the per unit OMH operating subsidy.” The maintenance of contingency funds is not a requirement, and OMH has made OSC aware of this on numerous occasions. Although the language in the corresponding SH Guidelines Questions and Answers document does not make it clear that it is not a requirement, OMH will review criteria to ensure that the guidance surrounding contingency funds is consistent.

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- **OSC’s Misunderstanding of the Program and the Services that Are Provided:** On page 7, second paragraph, OSC states that OMH allows RSS to provide medication education services that are not consistent with the SH Questions and Answers document.

**OMH Comments:** This statement is incorrect and is an example of OSC’s failure to take OMH responses into consideration. In May 2016, OMH program officials explained in writing to OSC that RSS operates an enhanced supported housing program in Albany County. This enhanced supported housing program allows clients to live in a stepped-down community-based residential setting and includes a full-time nurse and some medical assistance and additional supports, including medication management. The SH Questions and Answers document discusses only medication services provided in a supported housing program and does not discuss allowable services for the enhanced supported housing program.

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- **OSC’s Erroneous Conclusion that OMH Does Not Provide Consistent Fiscal Oversight of Supported Housing Providers:** On page 7, third paragraph, OSC states that “OMH is not exercising consistent fiscal oversight of its more than 150 Program

service providers.” OSC goes on to say that OMH’s guidance is vague and providers are left on their own to interpret guidance.

**OMH Comments:** OSC’s statement reflects a fundamental misunderstanding of OMH’s programmatic and fiscal guidance, which provides a comprehensive set of guidelines to ensure that programmatic goals are met within the framework of the fiscal guidelines. The SH Guidelines empower service providers to tailor services to clients. This type of individualized treatment and assessment is exactly how providers can best serve persons in need of supported housing.

Specifically, the SH Guidelines indicate that providers should “deliver those services necessary to establish the recipient in his/her housing, and maintain that housing . . .”. The SH Guidelines are designed to focus on coordination of services with community providers. To that end, the SH Guidelines list a range of services that the recipient should be provided access to (e.g., employment support, mental health and substance abuse treatment, assistance with obtaining entitlements). Flexibility is necessarily extended to providers given the variability in recipient need, which changes over time, as well as the local availability and choice in services. Such individualized treatment is clinically effective and fully compliant with the Americans with Disabilities Act.

In addition to the SH Guidelines, OMH relies on the CFR Manual to offer guidance to providers on the completion of the CFR, including how to categorize allowable expenses. Appendix X of the CFR Manual (Adjustments to Reported Costs) details those expenses that are ineligible for reimbursement. Providers rely on these guideposts in order to properly categorize expenses.

- **OSC’s Programmatic Assumptions Surrounding Performance Measure Goals:** OSC states on Page 8, first paragraph, that “OMH has other quantitative performance measures – such as the median length of stay – that have no set goals or targets.”

**OMH Comments:** Setting such goals or targets would be a mistake, and for OSC to suggest that OMH should set such goals shows a fundamental misunderstanding of the supported housing program. Because the program is intended to be long-term/permanent housing, establishing a standardized benchmark for length of stay would not be meaningful because the length of stay is highly individualized. A consistently low length of stay may be indicative of a high turnover rate (a condition where OMH would engage the provider to identify and address any performance issues).

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- **OSC’s Assumptions Regarding Program Performance:** OSC assumes on page 8, second paragraph that “OMH does not take action when a Program service provider underperforms other than to recover any annual stipends paid for beds not provided.” OSC goes on to conclude that although RSS’s overall occupancy in all of the supported housing sites, over eight different counties, was below OMH’s goal of 90 percent in 2013, “OMH still increased the number of beds RSS was contracted to provide in 2014 and again in 2015.” OSC goes on to conclude that OMH should consider reallocation of units.

**OMH Comments:** The SH Guidelines indicate that “OMH may reallocate units when significant vacancies exist.” OMH does not consider temporary shortfalls of 6.9 percent and 4.4 percent to be significant. Thus, OSC should not assume that appropriate action for the overall program’s not meeting the 90 percent occupancy rate is to withhold awarding additional beds, regardless of the level of need in the community, lack of organizational capacity, or any other mitigating circumstances.

RSS is the primary or exclusive supported housing provider in eight counties. Additional beds are awarded by RFP as resources allow in response to the needs identified in the community. As part of OMH’s RFP process, a provider’s bed performance with regard to



bed utilization is included in the scoring rubric. RSS is a successful provider in good standing and in some instances, may be the only applicant offering to provide supported housing beds in a particular county.

Furthermore, OSC did not take into consideration that the additional beds awarded may have been allocated to counties where the 90 percent occupancy target was being met. Additionally, the new beds may actually account for some of the gap between the occupancy rates and the program goal, as RSS works with clients to identify appropriate housing that the client may choose to accept, and are not filled immediately when the new beds are awarded.

Lastly, OSC’s preliminary report entitled “OMH Oversight” did not include mention of OMH increasing RSS’s number of beds despite having an occupancy below 90 percent. Had OSC informed OMH of this concern before issuing the audit report, OMH would have been able to provide detail surrounding the occupancy percentages and increased beds by county.

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- **OSC’s Erroneous Conclusion that Performance Measures Do Not Reflect Program Goals:** OSC inaccurately draws the conclusion on page 8 that “[t]he performance measures OMH currently uses do not reflect the primary goal of the program.” OSC further states on page 9 that “[w]ithout targets for the performance measures, OMH is not able to evaluate whether a service provider is meeting expectations or how a service provider compares to other service providers in its area.”

**OMH Comments:** This conclusion is incorrect. The primary goal of the program is to assist consumers with serious mental illness to obtain and maintain housing in the community. The particular rates of occupancy and the rates of referrals from a particular settings is a measure that is monitored to determine success of the program. The length of stay helps to measure the success of the individual.

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- **OSC’s Clinical Determination on Purchasing Food for Clients:** OSC found \$32,617 spent on food for clients and staff to be questionable. On page 13, first paragraph, OSC explains that purchasing food for clients could be acceptable if it was purchased to help a client remain in housing. They go on to state that “providers are not expected to provide all necessary services to clients but instead should assist clients in linking to community support systems, which would include programs such as local food pantries and emergency SNAP benefits.”

**OMH Comments:** The program guidance explicitly states that expenses establishing a client in housing are allowable expenses, and food purchases do help clients to remain in housing. OSC’s reference to SNAP benefits shows that OSC does not know that SNAP benefits have certain eligibility guidelines that may not be applicable to clients in supported housing, including that they are only available at the initial application for SNAP benefits and may take several days to receive benefits. Moreover, food pantries may not be available or sufficient, and they are not a complete alternative that would preclude supplemental or occasional assistance through the supported housing program. Again, OSC has made assumptions based on programmatic determinations for a program with which they are not familiar. The supported housing program is designed to afford providers with flexibility to develop an individual support plan, link clients to benefits and services in the community, and to provide ancillary services necessary to support or maintain the clients in housing as necessary.

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Additionally, OSC did not indicate that it found clients that were provided with food through the supported housing program without also being assisted with applying for SNAP benefits and/or other community resources.

- OSC’s Reference to the Provider Reimbursement Manual:** On page 13, last paragraph, OSC states that Appendix X of the CFR Manual indicates that if the Manual nor the NYS Codes, Rules, and Regulations address an issue, that the Provider Reimbursement Manual (PRM-15) applies. They go on to state that according to the PRM-15, gifts are not necessary program costs if they are not common or accepted occurrences in the provider’s field of activity.

**OMH Comments:** The PRM-15 does not apply to Supported Housing because it is not funded by Medicaid or Medicare, and the PRM-15 applies only to programs funded by Medicaid or Medicare. While OSC acknowledges that that these programs are not funded by Medicaid or Medicare, OSC incorrectly makes a broad interpretation of the Appendix X reference to the PRM-15 as being the “final word” on eligibility. Additionally, OMH has repeatedly told OSC that the appropriate use of gift cards in programs is a common and accepted practice in this field.

Even if the PRM-15 did apply, it would actually categorize gift cards as an acceptable program cost. The PRM-15 defines costs related to patient care as “all necessary and proper costs which are appropriate and helpful in developing and maintain the operation of patient care facilities and activities. Necessary and proper costs related to patient care are usually costs which are common and accepted occurrences in the field of the provider’s activity.” The way that OMH utilizes gift cards as a tool for community integration means that these costs fit the definition of a cost related to patient care. The reason these gift cards qualify as patient care in the way that OMH uses them is that these cash cards are provided as a way to enable individuals to learn such independent living skills as being able to purchase groceries, shop for clothes, etc. These skills are critical for persons transitioning to community living, and indeed a person in OMH’s care cannot safely transition to independent community living without first understanding how to use money and make basic purchases independently. Thus, the use of gift cards as a tool to teach individuals how to live integrated, independent lives is critical for participants in the supported housing program to thrive.

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- OSC’s Comparison of OMH to SED:** On page 14, second paragraph, OSC compares OMH to SED by stating that while both agencies are required to complete a CFR, SED has issued guidance which prohibits the claiming of gift cards as an allowable expense.

**OMH Comments:** OSC’s comparison of OMH to SED is inappropriate. These two agencies provide two completely different program models, and OMH has clearly stated this fact to OSC on multiple occasions. SED and OMH programs are completely different in both programmatic structure and goals. Additionally, the populations served and the programs that serve them have nothing in common.

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Specifically, SED programs are strictly educational and do not provide community integration, life-skill building, or any programmatic focus that would entail the use of gift cards, hence the prohibition by SED. In contrast, OMH programs are designed to integrate a person into a larger community and providing gift cards to these individuals can be an important tool in achieving community integration. Notably, such integration is not only regarded as a clinical best practice, but is also required by the Americans with Disabilities Act. Accordingly, OMH requests that OSC remove the erroneous analogy between the SED and OMH gift card policies.

- OSC’s Assumption that OMH Does Not Visit Providers:** OSC states on page 15, fifth paragraph, that “OMH does not regularly visit service providers to review case files.”

**OMH Comments:** This statement is inaccurate. This is an assumption made by OSC based on the fact that they found two clients that were paying more than 30 percent of

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their income toward rent which was not pre-approved by OMH. As stated earlier, OMH has a rigorous review process in place (which includes site visits and a review of client charts) in order to ensure that providers are following appropriate guidelines.

Moreover, the requirement for OMH pre-approval for clients paying more than 30 percent of their income towards rent was an addendum to the SH Guidelines that were updated in 2015. This process was not put into place until April 2015, and because OSC's audit scope was January 2014 to August 2016, it is unclear whether or not pre-approval was needed.

### III. OMH Responses to OSC Recommendations

- **OSC Recommendation No. 1 – OMH Guidance Over Program Expenditures**

Issue clear and specific guidance to service providers on allowable Program expenses that may be reported on the CFR.

**OMH Response**

This recommendation is unnecessary. The CFR Manual provides specific guidance and criteria regarding the eligibility of program expenses. Section 13 of the CFR Manual defines the expenses which should be included on each line of the CFR, and the appendices not only clarify those expenses which are deemed allowable, but define those expenses which have been determined to be non-allowable as well.

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- **OSC Recommendation No. 2 – Claiming of Expenses**

Establish controls to ensure that service providers are claiming only reasonable and allowable expenses on the CFRs for the supported housing program.

**OMH Response**

This recommendation is unnecessary. OMH already provides extensive guidance and training to its providers on allowable program costs. OMH has controls in place through its desk review and contract close-out process to ensure that providers are claiming allowable expenses. OMH continually reviews such guidance and training to ensure providers are receiving the most up-to-date and accurate information regarding allowable expenses.

- **OSC Recommendation No. 3 – Consistency in Supported Housing Guidance**

Ensure all Program guidance materials, including supplemental information such as the 2015 Questions and Answers document, are consistent with each other and with Program goals.

**OMH Response**

OMH disagrees with this recommendation for two reasons. First, it implies that the guidance documents are inconsistent with program goals despite providing no examples or evidence of such alleged inconsistency. On the contrary, program guidance documents establish and explain the program goals, along with expectations and direction on how to achieve those goals.

Secondly, the guidance regarding the use of contingency funds is nuanced in relation to the housing model. The Questions and Answers document clarifies the differentiation, while the Spending Plan Guidelines provide the overarching intent of the designation of contingency funds to "ensure that, on average, a minimum of \$500 of contingency funds per recipient is available annually to address emergencies." OSC misinterpreted the guidance and OMH's explanation as contradictory. Nonetheless, OMH will review the guidance documents and revise as necessary to ensure consistency, particularly with respect to contingency funds.

- **OSC Recommendation No. 4 – Contracts with Service Providers**

Ensure that contracts with Program service providers comply with Program guidance.

**OMH Response**

This recommendation is unnecessary. OMH already distributes extensive programmatic and fiscal guidance to providers. CFR training (updated annually) includes guidance on allowable program costs and OMH has controls in place through its desk review and contract close-out process to ensure that providers are claiming allowable expenses.

- **OSC Recommendation No. 5 – Goals for Performance Measures**

Establish specific quantitative and qualitative goals or targets for all Program performance measures.

**OMH Response**

This recommendation is unnecessary. As indicated in the audit report, OMH already utilizes two performance measures for the supported housing program: occupancy, and length of stay. OMH has already established an occupancy rate of 90 percent as the target for the supported housing program. As previously stated, establishing a benchmark for length of stay would not be meaningful because the program is intended to be long-term/permanent housing. As such, length of stay is a relative indicator, and a minimum standard would not be appropriate.

- **OSC Recommendation No. 6 – Accuracy of CAIRS Data**

Ensure the accuracy of the information reported by service providers through CAIRS.

**OMH Response**

OMH disagrees with this recommendation. CAIRS provides real-time data on tens of thousands of individuals across multiple programs. It is not a practical use of public resources to verify this volume of CAIRS data. However, OMH does perform periodic program monitoring, a component of which is reviewing case files that include admission and discharge information (i.e., the same data entered in to CAIRS).

- **OSC Recommendation No. 7 – Performance Data Availability**

Provide current RPI data to the public.

**OMH Response**

OMH has acknowledged that ongoing technical issues have hindered the posting of the RPI reports during the audit. However, RPI reports are produced and shared quarterly with all interested parties including providers, counties, and trade organizations. Additionally, they are available upon request to any interested parties. OMH will consider other methods of making the data available to the public as an additional interim measure.

- **OSC Recommendation No. 8 – Performance of Providers**

Evaluate the performance of Program service providers, and take appropriate action when a Program service provider is not meeting Program goals.

**OMH Response**

OMH disagrees with the presumptions that providers are not evaluated and that appropriate action is not being taken. OMH would further characterize OSC's recommendation as policy analysis based on incomplete information rather than a recommended corrective action to an audit finding. OSC has presumed that "appropriate action" for SH providers not meeting the 90 percent occupancy rate is to withhold awarding additional beds, regardless of the level of the need in the community, lack of organizational capacity, or any other mitigating circumstances. Additionally, as previously stated, OMH does not consider temporary shortfalls of 6.9 percent and 4.4 percent to be significant.

- **OSC Recommendation No. 9 – Additional Performance Measures**  
Develop additional Program-specific quantitative and qualitative performance measures for all service providers, regardless of whether they receive funding through a county or directly from OMH.

**OMH Response**

OMH disagrees with this recommendation. As has been previously stated, OMH already has appropriate performance measures in place. The metrics of occupancy rate and length of stay utilized by OMH sufficiently measure the fundamental purposes of the supported housing program. OMH does consider it allowable that counties may choose to require additional data reporting, particularly given their role as the administrator of the Single Point of Access (SPOA) system, but it is not required.

- **OSC Recommendation No. 10 – Non-Allowable Expenses**  
Recover the \$32,271 in expenses (\$6,282 charged to the Program and \$25,989 charged to other OMH-funded programs) we identified as not reasonable, necessary, or allowable for the Program.

**OMH Response**

OMH will follow-up on the expenses that OSC asserts are not reasonable and will recover funds as appropriate.

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- **OSC Recommendation No. 11 – Questionable Expenses**  
Review the \$489,756 in questionable expenses (\$137,848 charged to the Program and \$351,907 charged to other OMH-funded programs) we identified to determine whether they are reasonable and necessary, and recover any amounts determined to be not allowable.

**OMH Response**

OMH will review the questionable expenses identified by OSC and determine whether they are reasonable and necessary and will recover funds as appropriate.

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- **OSC Recommendation No. 12 – Competitive Bidding**  
Require service providers to rebid competitively bid contracts periodically or demonstrate that the contract remains competitively priced.

**OMH Response**

This recommendation is unnecessary. This is a best practice that OMH has already adopted as demonstrated by its inclusion on OMH’s website, in the document “Top Ten Internal Controls to Prevent and Detect Fraud.” OMH will work with providers to reiterate this expectation.

- **OSC Recommendation No. 13 – Related-Party Transactions**  
Ensure that service providers properly report all related-party transactions on their CFRs.

**OMH Response**

This recommendation is unnecessary. The CRF Manual requires that all related-party transactions be included on the CFR-5. OMH will work with providers to reiterate this expectation.

- **OSC Recommendation No. 14 – Gift Cards**  
Develop guidance for gift cards that, at a minimum, requires service providers to:
  - Document which clients received gift cards, including vendor and amount;

- Document the reason a gift card was considered appropriate to assist the client; and
- Obtain receipts or other evidence that the client used the gift card for its intended purpose.

**OMH Response**

OMH will consider developing a gift card policy that requires providers to document gift card purchases, reasons for use, and a requirement to submit receipts to show that it was used for its intended purpose.

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- **OSC Recommendation No. 15 – Rental Stipend Worksheets**

Ensure that Program service providers are correctly completing rental stipend worksheets.

**OMH Response**

This recommendation is unnecessary. OMH already ensures that service providers are completing rental stipend worksheets. OMH Field Offices routinely engage in on-site monitoring of the supported housing program and review case files which include rental stipend worksheets.

- **OSC Recommendation No. 16 – Pre-approvals Regarding Rent**

Ensure that Program service providers obtain the required pre-approvals for clients to pay more than a fair market value and/or more than 30 percent of their income for rent.

**OMH Response**

The SH Guidelines were updated in 2015 to include the requirement for pre-approval from OMH for clients who would pay more than 30 percent of their income towards rent. As stated, field offices do perform on-site monitoring, including a review of case files and rental stipend worksheets.

Regarding fair market rent, OSC has misinterpreted the guidance to infer that pre-approval from OMH is required for rents exceeding the fair market rent. This is not the case. The SH Questions and Answers document indicate that “if the agency finds and is willing to pay for an apartment above the Fair Market Rent they may choose to do so after conducting a rent reasonableness study.

- **OSC Recommendation No. 17 – State and County Guidance**

Revise the OMH guidelines to provide clear direction to all Program service providers, including whether OMH or county guidelines should take precedence.

**OMH Response**

OMH strongly disagrees with OSC’s generalization that the guidance provided by OMH is lacking clear direction. However, OMH will review current guidance regarding the relationship between OMH and county guidelines to determine whether further instruction is needed.

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## State Comptroller's Comments

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1. OMH's assertion is incorrect. In fact, as OMH officials acknowledge, OSC is clearly empowered "to audit whether OMH properly ensured that contracted services were provided." Further, auditors did not make any clinical decisions about whether OMH has properly designed its Supported Housing Program, nor whether clients were appropriately placed in the Supported Housing Program. Auditors did, however, assess whether OMH exercised appropriate oversight of its Program, including: providing fiscal guidance to service providers on how taxpayer money should be spent; and closely examining actual expenditures to ensure they were consistent with that guidance.
2. We stand behind our findings and conclusions about the shortcomings of OMH's oversight efforts and doubt that such efforts are "rigorous." In particular, please see pages 6 through 9 of the report for details of the deficiencies in OMH's fiscal oversight and programmatic guidance, and pages 10 through 14 for specific examples of unallowable and questionable expenses claimed by RSS and accepted by OMH.
3. OMH's assertion that it requests supporting documentation any time a CFR appears to contain errors or irregularities is largely belied by the more than \$500,000 in unallowable and questionable costs we identified, generally by simply reviewing the CFRs and requesting supporting documentation for items that posed relatively higher amounts of risk.
4. Based on OMH's comments, we revised our report to include the actual wording from OMH's 2015 Questions and Answers supplement that requires service providers to set aside contingency funding. We further included the definition from OMH's 2015 Supported Housing Guidelines for "Scattered-site Supported Housing."
5. Based on OMH's comments, we revised our report to include the actual wording from the Questions and Answers supplement that specifically states a Supported Housing contract may not be used to provide health care services. Further, the guidance OMH issued to its Supported Housing Program service providers does not indicate that there are two levels of service (generic and enhanced), nor does it state that it only applies to certain service levels. Also, because an enhanced Supported Housing Program is intended for clients who are at higher risk of failing to live independently without additional support, it is even more important for OMH to provide clear and non-contradictory guidance to its service providers so that all such clients (regardless of where they live) receive consistent and acceptable levels of support.
6. OMH's assertion is misleading and sidesteps the core issues related to its monitoring of Program performance. Further, our report does not recommend that OMH establish goals or targets for length of stay. Rather, our report questions why OMH tracks such data when its relevance to Program performance appears limited. In fact, we note that performance measures OMH currently uses do not correspond with the primary goals of the Program, nor measure specific activities or factors critical to Program success. We concluded that establishing qualitative performance measures for critical factors and setting goals for such factors would help OMH officials monitor the Program, and thereby enhance its oversight. It would also help OMH officials identify matters wherein service providers need more guidance and perhaps monitoring.
7. In fact, our preliminary audit finding entitled "OMH Oversight" noted that RSS' occupancy

rate was less than 90 percent, and included a table showing the occupancy rates for RSS (and for the State as a whole) for 2014 and 2015. This is an indication that OMH officials apparently fail to grasp the central issue of our report: the weaknesses in Program guidance, oversight, and monitoring.

8. OMH officials' assertion is incorrect. In fact, we reported that OMH Program guidelines state that service providers are not expected to provide all necessary services to clients, but instead should assist clients in linking to community support systems. These community support systems include local food pantries and emergency SNAP benefits, as well as other programs. OMH should ensure that its service providers identify Program clients who are eligible for community support system benefits and then help those clients apply for such benefits, rather than using limited Program funds for them.
9. In this instance, OMH officials trusted service providers almost completely, rather than develop effective internal controls for the Program. This and other OSC audits have consistently found that service providers usually provide gift cards around the December holiday period only, and that those transactions were routinely listed in their internal records as holiday gifts (and not as assistance with life skills). Despite this, OMH officials asserted that gift cards were only used as a necessary component of patient care. Nevertheless, in response to Recommendation 14 in the report, OMH officials indicate they will consider developing a gift card policy. We encourage OMH to develop an appropriate gift card policy to help ensure taxpayer funds are used appropriately.
10. OMH officials' inference is incorrect. As we repeatedly stated, the central issue of this audit was OMH's lack of clear guidance, oversight, and effective monitoring of service providers. Rather than addressing the need for guidance on the circumstances under which gift cards constitute an appropriate use of Program funds, OMH officials focused on the differences between their clients and those served by the State Education Department (SED). We acknowledge that OMH and SED clients have different needs. However, the point of our observation was to illustrate how SED officials recognized the importance of formal guidance on the matter of gift cards, while OMH placed near total reliance on service providers to make sound decisions on this unusual use of taxpayer funds.
11. We asked OMH officials to provide us with information about any site visits to RSS and its clients by either OMH headquarters or regional office staff. Officials provided us with a desk review of RSS' CFR and an analysis of RSS' fiscal condition done prior to renewal of its contract. However, neither of these involved a review of case files at RSS. Further, our other audits of the Program have also found few, if any, OMH site visits to service providers. We therefore stand by our statement, which is based on the evidence provided to us by OMH and not (as OMH officials assert) an assumption based on findings that RSS was not in compliance with OMH policy.
12. OMH officials repeatedly asserted that most of our recommendations were unnecessary, ostensibly because officials had purportedly engaged in the recommended activity already, or they were doing something else that produced the same satisfactory outcome. However, given that our audit identified over \$500,000 of unallowable and/or questionable costs, we maintain that OMH's oversight was not adequate. Further, OMH officials' agreement (with Recommendations 10 and 11) to review and recover the material amount of ineligible costs we identified is a tacit acknowledgment that improvements in oversight activities are needed.