



---

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

---

Division of State Government Accountability

# **Administration of Contract C007373 With the Institute for Community Living**

---

## **Office of Mental Health**

---



# Executive Summary

## Purpose

To determine whether the Office of Mental Health (OMH) is effectively administering its contract with the Institute for Community Living (ICL) by ensuring that contracted services were actually provided, and that only appropriate and supported expenses were reimbursed. The audit covered ICL's Consolidated Fiscal Report (CFR) for the contract year ended June 30, 2014. We also performed on-site observations of ICL staff, clients, facilities, and reviewed prior year-end reconciliations through October 22, 2015.

## Background

The mission of OMH is to promote the mental health and well-being of all New Yorkers. OMH operates psychiatric centers across the State, and regulates, certifies, and oversees a variety of inpatient, outpatient, residential, and family care programs. One of OMH's major programs is "supportive housing," which combines affordable housing and varying levels of community-based support services, depending on the needs of the individuals served. OMH hires independent contractors to operate many of these programs.

ICL is one of the largest providers of supportive housing services in the State, providing both multiple and single occupancy apartments in Brooklyn, the Bronx, Manhattan, and Queens. ICL is authorized to service a maximum of 1,420 clients. OMH makes four quarterly (advance) payments to ICL throughout the contract year. Service providers such as ICL must file an annual CFR, categorizing and summarizing all contract costs, which serves as a claiming document for program reimbursement. OMH is responsible for reviewing the reported CFR data for reasonableness and comparing the total advance payments to the contractor to the total costs claimed on the CFR. ICL claimed total program expenses of about \$21.5 million for the fiscal year ended June 30, 2014.

## Key Findings

We found that ICL provided the required contract services and charged its personal service costs to the contract in an appropriate manner. However, we also determined that:

- ICL charged \$138,132 in inappropriate and/or unsupported non-personal service (NPS) costs to the contract;
- OMH staff did not perform required annual reviews and reconciliations of ICL's CFRs in a timely manner. As a result, we identified \$561,011 in unrecovered contract overpayments from the 2010-11 and 2011-12 fiscal years; and
- Per OMH guidelines, providers should set aside about \$500 per client for contingencies, primarily to ensure that clients retain their housing. Based on the number of clients it served, ICL should have established a contingency fund of about \$281,000. However, there was no documentation that such a contingency fund was established.

## Key Recommendations

- Establish effective fiscal controls to ensure that providers' use of program funds is appropriate, allowable, and documented.
- Ensure ICL officials claim only program-appropriate and properly supported NPS expenses on

their CFR.

- Recover the \$138,132 in inappropriate and unsupported NPS expenses reported by ICL on its CFR.
- Initiate recovery procedures for the \$561,011 overpaid to ICL for the 2010-11 and 2011-12 contract years, and perform all future reconciliations in a timely manner.
- Work with ICL officials to establish a contingency fund, along with an appropriate recordkeeping system for such fund.
- Ensure that all service providers superintend contingency funds properly, including but not limited to requiring separate tracking and reporting on spending, and using such funds in compliance with program requirements.

### **Other Related Audits/Reports of Interest**

[New York City Department of Health and Mental Hygiene: Administration of the Contract With the Center for Urban Community Services \(2014-N-5\)](#)

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

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

**Division of State Government Accountability**

December 30, 2016

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 so doing, 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 *Administration of Contract C007373 With the Institute for Community Living*. 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*

## Table of Contents

Background	5
Audit Findings and Recommendations	6
Contractor Compliance with Program Requirements	6
Contractor Charges to Contract	6
Contingency Funds	8
Contract Oversight and Monitoring	9
Recommendations	10
Audit Scope and Methodology	10
Authority	11
Reporting Requirements	11
Contributors to This Report	13
Agency Comments	14
State Comptroller's Comments	18

### State Government Accountability Contact Information:

**Audit Director:** Frank Patone

**Phone:** (212) 417-5200

**Email:** [StateGovernmentAccountability@osc.state.ny.us](mailto:StateGovernmentAccountability@osc.state.ny.us)

**Address:**

Office of the State Comptroller  
 Division of State Government Accountability  
 110 State Street, 11th Floor  
 Albany, NY 12236

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

## Background

The mission of the Office of Mental Health (OMH) is to promote the mental health and well-being of all New Yorkers. OMH operates psychiatric centers across the State, and regulates, certifies, and oversees a variety of inpatient, outpatient, residential, and family care programs. OMH hires independent contractors to operate many of these programs. One of OMH's major programs is known as the "Supportive Housing Program," which combines affordable housing and varying levels of community-based support services, depending on the needs of the individuals served.

One of the largest providers of supportive housing services in the State is the Institute for Community Living (ICL). ICL's OMH-funded programs focus on congregate (generally known as "transitional") housing and permanent (generally known as "supported") housing for individuals with severe and persistent mental illness. These programs include both multiple and single occupancy apartments located in Brooklyn, the Bronx, Manhattan, and Queens, with the majority of housing (70 percent) in Brooklyn. ICL is authorized to service a maximum of 1,420 clients. ICL's most recently completed contract with OMH covered the period July 1, 2009 through June 30, 2014. ICL was paid \$116.6 million under this contract, with \$21.5 million claimed for fiscal year 2013-14 alone.

ICL's Supportive Housing programs include six Transitional Housing programs and one Supported Housing program. In Transitional Housing, clients are assigned individual units within apartment building settings where program staff are available 24 hours a day, 7 days a week. In Supported Housing, ICL assigns clients to private apartments scattered throughout the local communities where clients live virtually on their own, subject to periodic meetings with program staff. Transitional Housing programs are governed by Title 14 of the New York Codes, Rules and Regulations, Part 595 (Regulations), while Supported Housing programs are governed by OMH's Supported Housing Guidelines (Program Guidelines) for services, and OMH's Supported Housing, Contract and Budgeting Guidelines (Fiscal Guidelines) for fiscal administrative purposes.

In Supported Housing, clients are required to pay up to 30 percent of their income towards their rent, the remainder of which is paid by ICL. In Transitional Housing, clients pay a flat fee toward their support.

OMH makes four quarterly (advance) payments to ICL throughout the contract year. Service providers such as ICL must file an annual Consolidated Fiscal Report (CFR), which categorizes and summarizes all contract costs and serves as a claiming document for program reimbursement. The Consolidated Fiscal Reporting and Claiming Manual (Manual) offers guidance to service providers on how to complete the CFR. Manual specifics include: acceptable software to use when preparing the CFR; how to categorize allowable expenses; and how to upload the CFRs into OMH's tracking system. OMH reviews the reported data on the CFR for reasonableness by comparing the claimed expenses to the contract budget, and at year-end, reconciles the total advance payments to the total costs claimed on the CFR.

## Audit Findings and Recommendations

We found that ICL provided the required contract services and charged personal service costs to the contract in an appropriate manner. However, we identified \$138,132 in inappropriate and/or unsupported non-personal service costs charged to the contract and determined that a contingency fund was not established, as otherwise prescribed by OMH guidance. Also, OMH staff did not perform required annual reviews and reconciliations of ICL's CFRs in a timely manner, resulting in \$561,011 in unrecovered contract overpayments, three to four years after the CFRs in question were submitted.

### Contractor Compliance with Program Requirements

According to the contract, ICL is to provide various housing and supportive services for the clients referred to it via authorized agencies, such as the New York City Human Resources Administration (HRA). Depending on the specific program clients are enrolled in, ICL staff are responsible for providing one or more of the following services:

- Locating a suitable dwelling unit for clients, and if necessary help them execute a lease for those premises (permanent housing);
- Providing food and incidentals for clients (transitional housing);
- Working with clients to develop independent living skills (transitional housing);
- Upon intake, performing a comprehensive needs assessment and developing an individualized support plan (for permanent housing) or a service plan (for transitional housing) for each client;
- Performing monthly contact visits with permanent housing clients to assess how each is doing and to take corrective action as appropriate; and
- Making quarterly visits to permanent housing clients to assess the condition of their dwelling units.

We selected a sample of 20 client files to determine whether ICL staff were performing these required tasks. We determined that they were in fact doing so. For example, we reviewed documentation that supported the program-eligibility of each sampled client. We also determined that ICL staff prepared a support or service plan, depending on the program, for each sampled client and periodically evaluated the plans, as necessary. In addition, we found that each of the permanent clients had an executed lease for their living premises, and their reported incomes used to determine their rental obligations were supported by third-party verification (i.e., the Social Security Administration).

### Contractor Charges to Contract

#### *Personal Service Costs*

During our review period, ICL charged the personal service costs of 317 employees to the audited contract. Total personal service and fringe benefit costs for these employees during the audit



scope period totaled \$14.5 million. A personnel file supports the hiring of each staff member and each employee maintains a time and attendance record to document their dedicated work hours to the program.

To determine whether ICL charged only employees actually assigned to the program, and requested reimbursement for the correct personal service amounts, we performed several tests. For our first test, we performed unannounced floor checks of sampled program work sites to ensure that we could account for all current employees listed as being at those locations. We followed up and determined whether the absences were documented for any employee absent during our initial checks. We also reviewed personnel files and payroll registers for a sample of employees charged to the program during the scope period, and who were still employed by ICL during our field work, to determine whether their correct salaries were charged to the program.

We concluded that the personal service costs and related fringe benefits charged to the contract by ICL for the fiscal year ended June 30, 2014 were appropriate.

### *Non-Personal Service Costs*

In fiscal year 2013-2014, ICL requested reimbursement for approximately \$7 million in non-personal service (NPS) costs. Pursuant to the CFR Manual, to be eligible for reimbursement, NPS costs must be reasonable and necessary. Also, ICL's contract with OMH prescribes certain record-keeping requirements as follows:

- The contractor shall submit supporting fiscal documentation, as requested by OMH, for expenses claimed;
- The contractor must retain for a period of six years from the date of the Master Contract, or the most recent renewal of the Master Contract, whichever is later, any and all records necessary to substantiate upon audit the proper expenditure of funds received, including "original invoices/receipts, cancelled checks and related bank statements;"
- Out-of-state travel must be specifically detailed and pre-approved by the State; and
- Sales, transportation, and Federal excise taxes cannot be claimed for reimbursement.

We selected a judgmental sample of 61 NPS expense categories (totaling \$810,700) based on ineligible expenses we identified in prior audits of similar providers and certain other expenses posted to ICL's general ledger, which was used to prepare the 2013-14 CFR. We then selected 260 individual transactions, totaling approximately \$170,400, to determine whether each was program-appropriate and properly supported.

We identified several NPS expense transactions, totaling \$138,132, that were neither necessary, program-appropriate, nor properly supported, as follows:

- \$59,093 charged to the program for administrative office space that should have been charged to other ICL contracts;
- \$53,800 for personal telephone service in transitional client apartments and fax services in transitional housing administrative offices that should have been covered by administrative



- overhead;
- \$12,010 for an annual Winterfest party for staff, family members, and their friends;
- \$8,621 charged to the program for “HUD internship training” paid to an ICL subsidiary, with no documentation of which ICL employee(s) attended this training or how the training related to program activities;
- \$1,600 charged to the contract for an “employee appreciation” luncheon; and
- \$3,008 for items including an unnamed employee’s tuition, holiday gifts, truck maintenance for a non-ICL vehicle, and unapproved out-of-state travel, lodging, and food.

## Contingency Funds

According to OMH Fiscal Guidelines, service providers are to set aside, on average, a minimum of \$500 per client as a contingency fund. Contingency funds are not to be used for daily living expenses, but are to be used to resolve situations that place a client at risk of losing his/her program housing. These funds are intended to be used as a last resort, supplementing other emergency funds that may be available to the client. Service providers should make every effort to access such other emergency funds before contingency funds are used. Also, the Fiscal Guidelines do not specifically address the disposition of any unspent funds.

The Fiscal Guidelines offer examples of expenses that may be covered by contingency funds, such as furniture storage and minor repairs to a client’s apartment (other than those that the landlord is responsible for); and payment of the client’s share of rent for up to three months, if the client is unable to do so (e.g., hospitalized). Given its permanent housing client population for 2014 (562 clients), ICL should have established a contingency fund of about \$281,000 at that time.

However, there was no documentation that ICL officials established a contingency fund, of any amount, as directed by the Fiscal Guidelines. Further, ICL did not maintain a log or other accounting record from which any contingency expenditure could be readily identified. Consequently, ICL officials could not advise us of the amount of contingency fund expenditures or what such funds were used for.

According to ICL officials, emergency expenditures are simply recorded in the financial management system like all other transactions and are not distinguished from other ICL expenses. In addition, OMH officials asserted that, despite the clear wording in the Fiscal Guidelines, their Program Guidelines do not require providers to segregate contingency funds. Rather, they simply suggest or recommend that providers set aside funds for contingencies.

While we note that OMH’s Program Guidelines use the word “should” when referring to setting up contingency funds, OMH’s Fiscal Guidelines and Q and A document use the word “require” when referring to such funds. OMH officials should consider a formal review of their collective guidance and reconcile or revise as necessary.

## Contract Oversight and Monitoring

From the program perspective, OMH staff periodically make site visits to contractor facilities (for both transitional and permanent clients) to determine that: the clients occupying program beds are eligible for them; clients' living premises meet sanitary, safety, and health requirements; and ICL staff perform their case management duties effectively. OMH staff finalize each site visit with a report to the provider's management. Although such visits were not made to ICL during the audit period (FY 2013-14), OMH staff did visit selected ICL sites in the previous contract year (FY 2012-13) as well as the following year (FY 2014-15).

From the fiscal perspective, OMH has a fiduciary responsibility to ensure that the contracted services are being provided, that the finite financial resources dedicated to the program are spent only on program-appropriate items, and that each expense is properly supported. As such, OMH staff perform periodic desk audits of selected contractor expenses, usually after the year-end CFR is received and before the annual reconciliation is performed. However, as detailed below, OMH's performance of annual reconciliations has not been adequate, and OMH has not performed any fiscal reviews of ICL data for several years. As a result, inappropriate and/or unsupported expenses (such as those previously noted) go undetected, and funds for ineligible charges have not been recovered.

The CFR Manual requires providers to electronically file their CFRs with OMH within four months of their fiscal year end. Thus, considering that each ICL contract year ends on June 30th, the annual CFRs for ICL should be submitted to OMH by November 1st of each year. Following submission, OMH staff are to perform a closeout review. In addition to reviewing reported expenses for reasonableness, they compare advance payments made to the provider for the year in question to the CFR summary figures to determine if the provider has been overpaid.

OMH notifies the provider if it is determined that the provider has been overpaid. The provider then has 45 days in which to question OMH's calculation and to present evidence to refute questioned expenses. Otherwise, OMH should recover the overpayment by reducing advance payments for subsequent contract years. However, at the time of our audit fieldwork, the most recent year-end reconciliation performed by OMH was in June 2015 for the contract year ended June 30, 2011 – four years prior to the reconciliation. Moreover, the reconciliation indicated that OMH overpaid ICL by \$214,331. However, OMH had not initiated the timely recovery of this significant overpayment.

Similarly, when we inquired about the last reconciliation performed by OMH, we determined that ICL's CFR covering the contract year ended June 30, 2012 was not reconciled to advance payments by OMH until January 2016 – three and one-half years after the CFR's due date for submission. Based on the reconciliation, OMH overpaid ICL by \$346,680 for that year. If the reconciliation was done timely, recovery of the overpayment could have been initiated three years earlier. The unrecovered overpayments for the years ended June 30, 2011 and June 30, 2012 totaled \$561,011 (\$214,331 + \$346,680). Further, at the time we concluded our fieldwork, the year-end reconciliations for the years ended June 30, 2013 and June 30, 2014 had not yet been performed – potentially leaving material amounts of additional overpayments that were not recovered.

OMH officials informed us that the annual year-end reconciliations are sometimes not performed timely because ICL did not submit a satisfactory CFR within the four-month window. As a result, OMH staff had to routinely follow up with ICL to resolve issues. OMH officials also indicated that they have not had sufficient staff resources to perform all of the required reconciliations annually.

## Recommendations

1. Establish effective fiscal controls to ensure that providers' use of program funds is appropriate, allowable, and documented. Controls should include but not be limited to expanded desk reviews of provider CFRs to include review, utilizing a risk-based approach, of supporting documentation to ensure that claimed program expenses are reasonable, necessary, and allowable.
2. Develop supplemental guidance for service providers on allowable program costs.
3. Recover the \$138,132 in inappropriate and unsupported NPS expenses reported on ICL's CFR for the contract year ended June 30, 2014.
4. Work with ICL officials to establish a contingency fund, along with an appropriate recordkeeping system for such fund.
5. Ensure that all service providers superintend contingency funds properly, including but not limited to requiring separate tracking and reporting on spending, and using such funds in compliance with program requirements.
6. Initiate recovery procedures for the \$561,011 overpaid to ICL for the 2010-11 and 2011-12 contract years.
7. Perform the required annual reconciliations for the 2012-13, 2013-14, and 2014-15 contract years as soon as possible. Perform the year-end reconciliations for all subsequent years in a timely manner.

## Audit Scope and Methodology

The objectives of this audit were to determine whether OMH is effectively administering Contract C007373 with ICL by ensuring that contracted services are being provided, and that only appropriate and supported expenses are being reimbursed. The audit covered ICL's CFR for the contract year ended June 30, 2014. We also performed on-site observations of ICL staff, clients, and facilities through October 22, 2015 and examined OMH's practices for performing annual reconciliations of advance payments to ICL's CFRs.

To accomplish our objectives, we reviewed the contract, interviewed OMH and ICL officials regarding program and fiscal requirements, and reviewed the controls over, and records documenting, contractor operations and fiscal reporting. We also reviewed the CFR Manual,

OMH's Supported Housing Guidelines, the Regulations governing licensed programs, and relevant OMH and ICL policies and procedures. We performed unannounced floor checks to ICL work sites and selected apartments to confirm the existence of employees charged to the program and the clients receiving services. To review contract-related personal service costs, we reviewed employee files, payroll registers, and the amounts claimed for each on the CFR. To determine whether ICL staff were performing their required tasks and if selected clients were eligible, we reviewed a sample of 20 client files, 12 of which were selected randomly, and 8 were judgmentally selected from the transitional housing program. To review non-personal service expenses, we selected a sample of 260 expense transactions, using selective sampling in the 61 questionable expense categories we identified in prior audits, and reviewed each for support and justification.

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 objectives. We believe that the evidence obtained during the audit provides a reasonable basis for our findings and conclusions based on our audit objectives.

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 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

---

This audit was performed pursuant to the State Comptroller's authority under Article V, Section 1 of the State Constitution and Article II, Section 8 of the State Finance Law.

## Reporting Requirements

---

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 the report.

In their response, OMH officials indicated that they would review our recommended recoveries of improper claims and overpayments and follow up on them, as appropriate. OMH officials also asserted that they have effective fiscal controls for the supported housing program, and they cited some of the monitoring tools they utilize. Our rejoinders to certain OMH comments are included in the report's State Comptroller's Comments.

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 fiscal committees, advising them what steps were taken to implement the recommendations contained herein, and where recommendations were not implemented, the reasons why.

## Contributors to This Report

---

**Frank Patone**, CPA, Audit Director  
**Michael Solomon**, CPA, Audit Manager  
**Keith Dickter**, CPA, CISA, Audit Supervisor  
**Jeremy Mack**, Examiner-in-Charge  
**Legendre Ambrose**, Senior Examiner  
**Adele Banks**, Senior Examiner  
**Erik Dorfler**, Senior Examiner  
**Amitai Mario Uriarte**, Staff Examiner  
**Noreen Perrotta**, Senior Editor

## Division of State Government Accountability

---

Andrew A. SanFilippo, Executive Deputy Comptroller  
518-474-4593, [asanfilippo@osc.state.ny.us](mailto:asanfilippo@osc.state.ny.us)

Tina Kim, Deputy Comptroller  
518-473-3596, [tkim@osc.state.ny.us](mailto:tkim@osc.state.ny.us)

Brian Mason, Assistant Comptroller  
518-473-0334, [bmason@osc.state.ny.us](mailto:bmason@osc.state.ny.us)

---

### 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.

# Agency Comments



ANDREW M. CUOMO  
Governor

## Office of Mental Health

ANN MARIE T. SULLIVAN, M.D.  
Commissioner

MARTHA SCHAEFER  
Executive Deputy Commissioner

August 22, 2016

Frank Patone, CPA  
Audit Director  
Office of the State Comptroller  
Division of State Government Accountability  
59 Maiden Lane – 21<sup>st</sup> Floor  
New York, NY 10038

Dear Mr. Patone:

The Office of Mental Health has reviewed the Office of the State Comptroller's (OSC's) draft audit report entitled, "Administration of Contract C007373 with the Institute for Community Living" (2015-S-39). Our comments to the findings and recommendations are enclosed.

Sincerely yours,

A handwritten signature in blue ink that reads "Martha Schaefer".

Martha Schaefer  
Executive Deputy Commissioner

Enclosure



**OFFICE OF MENTAL HEALTH  
RESPONSE TO OFFICE OF THE STATE COMPTROLLER  
DRAFT REPORT 2015-S-39  
ADMINISTRATION OF CONTRACT C007373 WITH THE  
INSTITUTE FOR COMMUNITY LIVING**

**I. OMH Overall Comments**

OMH has reviewed the findings and recommendations in the Office of the State Comptroller's draft report (2015-S-39) entitled "Administration of Contract C007373 with the Institute for Community Living." The purpose of this audit was to determine whether or not OMH is effectively administering its contract with the Institute for Community Living (ICL) and ensuring that contracted services were provided and that only appropriate and supported expenses were reimbursed. OSC found that ICL was in compliance with program requirements and that personal service costs and fringe benefits allocated to the contract were appropriate.

OMH strongly disagrees with OSC's contention that OMH does not have effective fiscal controls for its supported housing program. OMH utilizes many guidance and monitoring tools including the Supported Housing Guidelines (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). CFR's are CPA-certified and providers are given training on proper preparation and filing. Indeed, OSC notes on page 6 that ICL provided the required services and charged personal service costs appropriately. Thus, it cannot be the case that OMH lacks effective fiscal controls.

\*  
Comment  
1

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

**OSC Statement**

On page 8, last paragraph OSC states, "while we note that OMH's Program Guidelines use the word "should" when referring to setting up contingency funds, OMH's Fiscal Guidelines and Q and A document regarding program requirements use either "require" or "are to" when referring to such funds. OMH officials should consider a formal review of their collective guidance and reconcile or revise as necessary."

**OMH Comment**

The maintenance of contingency funds is not an OMH requirement, but is an advisable practice. OMH will review all current guidance, and revise as needed, to ensure that all guidance is consistent and clear. OMH will communicate the result of its work to all service providers.

\*  
Comment  
2

**III. OMH Responses to OSC Recommendations**

○ **OSC Recommendation No. 1**

Establish effective fiscal controls to ensure that providers' use of program funds is appropriate, allowable, and documented. Controls should include but not be limited to expanded desk reviews of provider CFR's to include review, utilizing a risk-based approach, of supporting documentation to ensure that claimed program expenses are reasonable, necessary, and allowable.

\*See State Comptroller's Comments, page 18.

**OMH Response**

OMH already has strong fiscal controls to ensure that provider's use of program funds is appropriate, allowable, and documented. As previously stated in the overall comments section of this response, OMH utilizes many guidance and monitoring tools (e.g., SH Guidelines, Aid to Localities Spending Plan Guidelines, Contract Close-Out Process). Given the robust fiscal monitoring that already exists, and which OSC has been made aware of, further reviews are not necessary.

\*  
Comment  
1

○ **OSC Recommendation No. 2**

Develop supplemental guidance for service providers on allowable program costs.

**OMH Response**

OMH already provides comprehensive guidance for service providers on allowable program costs. To the extent providers are unclear about allowable program costs, OMH remains ready to assist them and answer any questions. OMH will continue to enhance this existing guidance on an as needed basis to ensure that only allowable program cost are reported.

○ **OSC Recommendation No. 3**

Recover the \$138,132 in inappropriate and unsupported NPS expenses reported on ICL's CFR for the contract year ended June 30, 2014.

**OMH Response**

We are unable to determine whether or not these expenses are inappropriate and unsupported until we receive supporting documentation and conduct our own review. ICL has so far acknowledged that \$13,610 of the total is inappropriate. Following our own review, inappropriate and unsupported NPS expenses will be recovered as appropriate.

\*  
Comment  
3

○ **OSC Recommendation No. 4**

Work with ICL officials to establish a contingency fund, along with an appropriate recordkeeping system for such fund.

**OMH Response**

OMH already stands prepared to work with ICL to establish a contingency fund in the event that ICL is willing to pursue the issue. The SH Guidelines state only that contingency funds should be set aside if available. The reason this is not a requirement is that increasing program expenses often limits the ability of providers to set aside contingency funds. Additionally, the Supported Housing Questions and Answers does provide guidance with regard to reporting the use of contingency funds and the proper utilization of such funds. The document states that "per OMH Spending Plan Guidelines, all contingency costs should be displayed in the column on line 8, Rent/Property Other than Personal Service," and "contingency funds may be used to cover non-emergency needs during the year." Nonetheless, OMH will consider OSC's recommendation to provide additional guidance to ICL and all providers with regard to the establishment and recordkeeping of contingency funds.

\*  
Comment  
2

○ **OSC Recommendation No. 5**

Ensure that all service providers superintend contingency funds properly, including but not limited to requiring separate tracking and reporting on spending, and using such funds in compliance with program requirements.

**OMH Response**

As stated above, OMH has already ensured that guidance is available regarding the reporting and use of contingency funds and proper utilization of such funds through the Supported Housing Questions and Answers document. OMH will consider OSC's recommendation and will ensure that the CFR training includes the tracking and reporting of contingency funds.

- **OSC Recommendation No. 6**

Initiate recovery procedures for the \$561,011 overpaid to ICL for the 2010-11 and 2011-12 contract years.

**OMH Response**

We have initiated recover procedures for those overpayments that are recoverable. As OSC is aware, OMH has recovered the \$214,331 overpayment for the 2010-11 contract period against ICL's July 2016 quarterly payment. In June 2016, ICL requested and was granted an extension of the closeout appeal period for the 2011-12 contract period (overpayment was \$346,680), and as of this writing, the extension period has not yet expired. At the end of the extension period, OMH will review the revised claim and, if warranted, revise and finalize the closeout. Any identified overpayment will be recovered against ICL's next quarterly payment.

- **OSC Recommendation No. 7**

Perform the required annual reconciliations for the 2012-13, 2013-14, and 2014-15 contract years as soon as possible. Perform the year-end reconciliations for all subsequent years in a timely manner.

**OMH Response**

The present status of these reconciliations is timely and OSC's recommendation is consistent with OMH's present practice already. OMH completed closeouts for ICL's 2012-13 and 2013-14 contract periods in April 2016. Shortly after notification of the identified overpayment, ICL requested, and was granted, an extension of the 45-day closeout appeal period. As stated above, OMH will review the revised claims and, at the end of the extension period, will adjust and finalize the closeouts if warranted. Any identified overpayments will be recovered against ICL's next quarterly payment.

Upon resolution of the above outstanding closeout periods, OMH will proceed with a review of ICL's 2014-15 contract period.

---

## State Comptroller's Comments

---

1. Our report did not state “that OMH does not have effective fiscal controls for its supported housing program.” Nevertheless, we stand by our findings and recommendations as presented in the report. With particular respect to ICL, we maintain that OMH should establish effective controls to ensure that program funds are used for appropriate and allowable purposes and are adequately documented.
2. Based on OMH's Fiscal Guidelines and the Q and A Document in effect for our audit period, the establishment of a contingency fund was more than an advisable practice – it was a prescribed requirement. Because OMH officials state that a contingency fund is now an advisable practice, officials should review and revise all formal guidance on this matter, as appropriate and in a timely manner. We are pleased that officials indicate that OMH will review all current guidance, and revise as needed, to ensure that such guidance is consistent and clear.
3. We provided the detailed supporting documentation for our recommended recovery of inappropriate and unsupported NPS expenses to both OMH and ICL officials during the course of the audit. We will resend the requested information to OMH.