New York State Office of the State Comptroller
Thomas P. DiNapoli
Division of State Government Accountability

Oversight of the Supported Housing Program: DePaul Group, Inc. and Affiliates

Office of Mental Health

Report 2015-S-42 December 2016

Executive Summary

Purpose

To determine whether the Office of Mental Health (OMH) is ensuring that DePaul Group, Inc. and its affiliates, DePaul Community Services, Inc. (DCS) and Living Opportunities of DePaul, Inc. (LOD), expended funds appropriately and provided the required services under their Supported Housing Program contracts. The audit covered the 34-month period from January 1, 2013 to October 31, 2015.

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. For 2013 and 2014, DCS claimed about $2.9 million in expenses to provide an average of 192 beds and LOD claimed nearly $3.4 million in expenses to provide an average of 241 beds, for a total of $6.3 million in Program expenses claimed by the DePaul Group for both direct Program services and indirect administration costs.

Key Findings

- The ultimate goal of the Program is to ensure that clients obtain permanent housing. To that end, we found DePaul Group clients are receiving appropriate housing services and that all but one of 14 clients we visited had adequate housing. For the one client we identified who had been living in an unsafe apartment for several months, the DePaul Group has worked with the landlord to make needed repairs.
- Both DCS and LOD claimed expenses on their Consolidated Fiscal Reports (CFRs) that are either not allowable or not documented or, at a minimum, 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. These claims total $41,743 in non-allowed expenses, including both personal and excessive expenses associated with attendance at a professional conference. The questionable costs we identified total $109,987 and include expenses related to vehicle and pension costs. In addition, we also identified $216,262 in administrative expenses allocated from the parent entity, the DePaul Group, to DCS and LOD that were not correctly reported or adequately supported.
- OMH has not provided sufficient fiscal oversight and programmatic guidance to ensure that claimed expenses are Program appropriate or that certain Program goals are achieved. For example, we found several clients were paying more than 30 percent of their income on housing, which is the upper limit generally established by OMH for Program participants.

Key Recommendations

- Ensure service providers visit each client in their home at least once every three months, as required by the Program guidelines.
- Recover the $41,743 in expenses we identified as not reasonable, necessary, or allowable for the Program, including $27,020 in expenses that were not sufficiently documented.
- Recover the additional $9,707 related to the November 2014 Association for Community Living Conference charged to other OMH-funded programs which we identified as not allowable.
- Review the $109,987 in questionable expenses we identified, determine whether they are reasonable and necessary for the Program, and recover any amounts determined to be not allowable.
- Review the supporting documentation for the $216,262 that the DePaul Group charged to DCS and LOD for administrative expenses. Determine whether and to what extent these parent agency administrative expenses are allowable.
- Ensure service providers handle contingency funds properly.
- Establish effective fiscal and programmatic controls to ensure that: providers' use of Program funds are appropriate, allowable, and documented; Program requirements are followed; and Program goals are achieved.
- Before approving any housing requests, assess each client's ability to afford permanent housing if the rent will exceed 30 percent of income.

Agency Response

In responding to our draft report, OMH officials disagreed with our conclusion that its fiscal oversight of the Program was deficient. Further, officials described oversight efforts by regional field offices as "rigorous." However, none of those efforts focused sufficiently on the fiscal aspects of OMH's oversight responsibilities, nor did they include reviews of supporting source documentation or other assessments to ensure providers used Program funds for allowable, reasonable, and Program-appropriate expenses. Further, our audit found that purported controls and procedures were not always put into practice. In fact, staff from OMH's western New York regional field office never visited one of the DePaul affiliates at all during the 34-month audit period and only visited the other affiliate once (in 2015).

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 Accountability

December 30, 2016

Ann Marie T. Sullivan, M.D.
Commissioner
Office of Mental Health
44 Holland Ave.
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: DePaul Group, Inc. and Affiliates*. 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

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Background

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 eligible 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.

OMH largely measures Program service providers' performance in terms of the number of beds made available. Service providers receive an annual stipend per bed, payable in quarterly installments. Some service providers contract directly with OMH; others contract with counties, which receive Program funding from OMH. DePaul Community Services, Inc. (DCS) and Living Opportunities of DePaul, Inc. (LOD) each provide Program services in western New York. Both are affiliated with DePaul Group, Inc. – a large not-for-profit community support organization that provides a range of services throughout the State – and are the only two of the DePaul Group's more than 40 such affiliates that provide Program services. DCS provides services to clients in Monroe County through a contract with the county. LOD provides services to clients in Genesee and Orleans counties through a direct contract with OMH and in Erie and Wyoming counties through contracts with those counties.

Both DCS and LOD are required to 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.

For the two-year period ending December 31, 2014, service providers claimed a total of $301.9 million in Program expenses for an average of 17,320 beds each year statewide. Of that amount, DCS claimed about $2.9 million for an average of 192 beds and LOD claimed nearly $3.4 million for an average of 241 beds, resulting in a total of $6.3 million claimed by the DePaul Group for beds in western New York for 2013 and 2014.

Audit Findings and Recommendations

The ultimate goal of the Program is to ensure that clients obtain permanent housing. We found that clients are receiving appropriate housing services, and 13 of the 14 clients we visited had adequate housing; the remaining client had been living in an unsafe apartment for several months. As a result of our finding, the DePaul Group worked with the landlord to make needed repairs on behalf of the client. Also, we determined that both DCS and LOD included expenses on their CFRs that are either not allowable or not sufficiently documented or, at a minimum, require additional review by OMH to determine whether they are reasonable and necessary for the Program, with claims totaling $41,743 in non-allowed costs (including $27,020 not adequately supported) and $109,987 in questionable Program costs that required further examination by OMH.

We found that OMH did not provide sufficient fiscal oversight and programmatic guidance to Program providers to ensure that claimed expenses are Program appropriate or that certain Program goals are achieved. For example, we found DCS and LOD had different methods for reporting $216,262 in costs paid to their parent, the DePaul Group, for administrative expenses, reporting some as incurred by the DePaul Group and some as incurred by themselves. We also found that neither DCS nor LOD properly tracked contingency expenses, and therefore they cannot demonstrate compliance with OMH requirements for such spending. Further, we found several clients were paying more than 30 percent of their income on housing, which is the upper limit generally established by OMH for Program participants.

According to DePaul Group officials, the needs of individual clients vary significantly. As a result, they believe OMH has kept its guidance deliberately vague to create a degree of flexibility for service providers. However, without proper guidance, it appears service providers may determine for themselves what services clients should receive and the nature of the expenses that may be claimed on the CFR.

In responding to our draft report, OMH disagreed with our conclusion about the lack of Program oversight. Officials summarized their general oversight process, as well as their guidance and monitoring tools for Program service providers, which they contend serve to enhance the accomplishment of Program goals. For example, OMH officials described a “rigorous oversight process” that they asserted was routinely used by its regional field offices, and included:

- visits with consumers/apartments;
- a review of provider case records;
- an examination of policies and procedures; and
- a review of occupancy, governance, health and safety, finance, and advocacy issues.

However, our audit found that these purported controls and procedures were not always put into practice, particularly in the case of the DePaul Group providers. In fact, staff from OMH’s western New York regional field office never visited DCS at all during our 34-month audit period and only visited LOD one time (in 2015).

Further, although OMH develops Program budgets based on the number of beds a provider will supply, it actually reimburses providers based upon what that funding is spent on. Yet none of the procedures that OMH describes focus on the fiscal aspects of its oversight responsibilities; nor do they include any actual review of supporting source documentation or other assessment of whether providers used Program funds for allowable, reasonable, and Program-appropriate expenses. Since it is difficult to identify problems if efforts to identify them are weak, we concluded OMH's fiscal oversight was inadequate to prevent or detect the problems identified by our audit.

We recognize that complete and adequate oversight within the confines of the current funding systems is likely beyond OMH's current capacity, in large part because of the nature and complexity of the organizations with which it contracts. Reviewing CFRs from Program service providers requires a significant commitment of resources to adequately address the scope of work required to ensure that claimed costs are both Program related and allowable. These tasks are especially difficult when assessing the reasonableness of costs that have been allocated to a provider by other parts of complex entities like the DePaul Group, which is composed of more than 40 affiliated entities including DCS and LOD. Portions of these costs, in turn, are allocated among DCS's and LOD's various programs. In this regard, OMH faces difficulties in ensuring accountability for how service providers have spent Program funding.

OMH Oversight of the Supported Housing Program

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, they are not required to provide supporting documentation for their claimed expenses, only to retain it in their files and make it available on 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 does perform limited desk reviews of the CFRs, it does not request any of the additional supporting documentation. Without the supporting documentation, OMH cannot determine whether those 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 only claim allowable Program expenses on their CFRs. According to OMH officials, OMH relies on providers' CPAs to verify that the expenses are reasonable and necessary, and comply with Program guidelines. However, as stated in both the Manual and the CPA certification included on the CFR, while the CPAs test certain amounts reported on the CFR, the CPAs 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, OMH appears to have intentionally kept its guidance vague to allow providers flexibility in meeting the needs of individual clients, and has not developed specific guidance and/or established criteria regarding the eligibility of certain Program expenses. Consequently, every provider across the State is left to decide on its own how to interpret and implement the broad guidance, resulting in an increased risk of claimed expenditures that are not consistent with Program intent and potential inconsistencies among providers. OMH should review the Manual (including its appendices) to identify and create the necessary supplemental guidance on allowable Program costs to help ensure service providers' reported expenses are allowable.

Programmatic Oversight

Guidance

OMH issued guidelines for service providers in 1992 with, according to OMH officials, only minor revisions until 2015. The guidelines explain the goals of the Program and, rather than prescribing specific services, provide examples of types of services a particular client should receive. This gives service providers flexibility in addressing clients' individual challenges rather than enforcing a one-size-fits-all approach to assist the mentally ill with independent living. OMH has also issued separate guidelines for counties to assist them with oversight of their service providers. These guidelines are applicable where the county receives funding from OMH and in turn contracts with the service providers, rather than OMH directly contracting with such providers.

We found OMH's guideline requirements issued to counties are different from those given to service providers. Consequently, provider practices may not be consistent with county overseer expectations. For example, according to the guidelines for counties, clients should pay no more than 30 percent of their income for rent and utilities, whereas the guidelines for service providers state that clients should each pay 30 percent. As a result, clients may be required to take on differing financial responsibilities depending upon who oversees the Program they are enrolled in. As discussed later in this report, OMH issued guidance in 2015 stating that clients may only pay more than 30 percent with prior approval by OMH.

Communication

We also found inconsistencies in how OMH shares information with the individual service providers. DCS and LOD both allocate many costs between their programs and locations, including office supplies, computer supplies, leased office equipment, leased vehicles, electricity, gas, postage, refuse service, and telephone service. The Manual prescribes the allowable methodologies to be used for various types of shared costs. For example, repairs and maintenance expenses should be allocated based on square footage, while transportation expenses should be allocated based on the number of trips or mileage. However, in the event the recommended allocation method does not apply, the Manual also allows service providers to use alternative methodologies they deem to be more reasonable. LOD allocates most costs based on the number of beds at each location. OMH officials indicated that this could be a reasonable methodology, because OMH evaluates the success of the Program based on beds. However, OMH has not made all service providers aware that the agency considers this to be an acceptable methodology for allocating expenses. DCS, for example, does not allocate costs based on the number of beds but, rather, based on the methodologies listed in the Manual, such as square footage for electric bills.

As the entity providing the Program funding, OMH is responsible for ensuring that providers are, in fact, delivering the services for which they are being paid. OMH's regional field offices should be monitoring providers to determine whether they are correctly reporting the number of clients served by the Program and whether those clients are receiving the necessary assistance to remain in independent living. In addition, where a county has contracted with a provider, the county should also monitor the provider's operations. However, we found OMH does not adequately coordinate its regional field offices' monitoring efforts, nor does it communicate its expectations for what monitoring activities the counties should do. During 2013 and 2014, we found the OMH regional field office in western New York did not make any site visits to DCS or LOD clients. After changes instituted by OMH in 2014, the regional field office visited LOD and six of its clients once in early 2015. As a result of this visit, the regional field office recommended some minor changes to LOD's operations.

Recommendations

1. Establish effective fiscal and programmatic controls to ensure that: providers' use of Program funds are appropriate, allowable, and documented; Program requirements are followed; and Program goals are achieved. Controls should include, but not be limited to:

   - Expanded desk reviews of provider CFRs to include review, on a sample basis, of supporting documentation to ensure that claimed Program expenses are reasonable, necessary, and allowable;
   - Ensuring that guidance issued to counties and to service providers is consistent;
   - Clarifying expectations of the counties, the OMH regional field offices, and the OMH main office, especially when a service provider receives Program funding both directly from OMH and through a county;
   - Improved communication among oversight entities; and
   - Ensuring the regional field offices are performing the required monitoring of Program service providers.

2. Develop supplemental guidance for service providers on allowable Program costs.

3. Determine whether a per-bed allocation methodology is reasonable for shared costs, and notify all service providers of the decision made.

Program Expenses Reported by DCS and LOD

Program Expenses

On their 2013 and 2014 CFRs, DCS and LOD reported a total of $6,327,592 in Program expenses: $6,111,330 in direct Program and administrative costs and $216,262 in administrative costs charged to DCS and LOD by the DePaul Group. From the $6,111,330 in direct Program costs and administrative costs incurred by DCS and LOD, we reviewed a judgmentally selected sample of expenses totaling $360,918 to determine whether they were Program appropriate and in compliance with the Manual and its appendices that are applicable to OMH and to the Program. Our sample focused on amounts, expenditure types, and vendors that we considered to be of greatest risk. We identified $41,743 in expenses that were not allowed by the Manual, not for Program services, or not adequately supported and $109,987 in questionable expenses. (See Table 1.) We also identified an additional $9,707 in non-allowable expenses charged to other OMH programs.

Table 1 - Program Expenses Reported by DCS and LOD on CFRs for 2013 and 2014

	DCS Expenses	LOD Expenses	Total Expenses	Percentage of Reviewed Expenses
Amounts Reported	$2,866,559	$3,244,771	$6,111,330	
Amounts Reviewed	$209,354	$151,564	$360,918	
Allowable	104,816	104,371	209,187	58%
Not Allowable	32,596	9,147	41,743	12%
Questionable	71,942	38,042	109,987	30%

Expenses Not Allowable

We identified $41,743 in Program expenses that were not allowable, not reasonable and necessary for Program operations, or not adequately supported. We also identified $9,707 in expenses improperly charged to other OMH-funded programs, for a total of $51,450, as follows:

- **$27,020 in allocated expenses charged to the Program without sufficient documentation:** We examined documents prepared by DCS and by LOD for tracking and allocating certain Program expenses, such as computer supplies, phones, and rents. However, DCS and LOD did not provide us with the original supporting documentation as evidence of the amounts paid, only the methodology used to allocate these costs between the programs operated by DCS and LOD. OMH should review the supporting documentation, maintained by DCS and LOD, for these transactions to ensure that they are reasonable and necessary for Program services.

- **$12,493 for conference-related costs improperly charged to the Program or to other OMH-funded programs:** In November 2014, DCS and LOD employees attended the Association for Community Living (ACL) Conference at the Sagamore Resort and Hotel in Lake George, NY. ACL is an organization of not-for-profit agencies that provide housing and rehabilitation services to mentally ill clients in New York State. The total cost of attending the conference was $27,928, of which $5,000 was charged to DCS's Supported Housing Program. We reviewed the full $27,928 against the Manual, particularly Appendix X, which disallows costs that are not reasonable or necessary for Program services. Among the costs that Appendix X of the Manual specifically disallows are contributions to other entities, entertainment/amusement for officers, and alcoholic beverages. We disallowed $2,786 of the $5,000 charged to the Program and an additional $9,707 charged to other OMH-funded programs. The total disallowance of $12,493 includes:

    - $5,000 in conference sponsorship costs;
    - $4,505 for rooms used by guests of the DePaul Group's Chief Executive Officer (CEO), who was also the President of the ACL Board of Directors;
    - $1,941 for a suite rented by the DePaul Group CEO, including $1,178 for alcohol served at a dinner he hosted and other incidental charges such as a spa treatment; and
    - $1,047 for the cost of suites rented by other DCS and LOD employees in excess of the rate for standard hotel rooms.

- **<u>$3,260 for life insurance DCS provided to its employees:</u>** The Manual considers life insurance to be a non-mandatory fringe benefit, which may only be charged to the State if it is reasonable, which includes being available to all employees. According to OMH officials, different classes of coverage are acceptable as long as all employees receive equitable coverage. While all employees of DCS receive life insurance, the officers are covered for five times their annual salary to a maximum of $500,000, while Program employees are covered for only three times their annual salary to a maximum of $300,000. Because the staff are offered significantly less coverage than the officers, we consider this benefit to be in violation of the Manual and OMH's position.

- **<u>$2,143 for costs related to LOD's Transitional Housing Program:</u>** These expenses included the cost of recreational activities, storage units, and food supplies. The Transitional Housing Program is a separate, short-term program intended to help homeless individuals obtain housing and establish a residence. According to DePaul Group officials, they were directed by OMH to charge these costs to the Program because many Transitional Housing Program clients become Program clients after they have established a residence. However, the Transitional Housing Program is a separate program with its own funding and guidance on what services are acceptable. Therefore, these costs should have been charged to the Transitional Housing Program, and not the Supported Housing Program.

- **<u>$6,534 in expenses charged to the Program that were neither reasonable nor necessary:</u>** These expenses included costs of a training program for clients of a community residence program; gift baskets given to county mental health agencies to be raffled off (with the proceeds used to benefit those agencies rather than Program clients); food, coffee, and promotional water bottles for DCS and LOD staff; sponsorship of an awards gala; and staff attendance at a cultural event on the Tonawanda Indian Reservation.

OMH should recover a total of $51,450 in costs from DCS and LOD, including $41,743 in disallowed expenses and $9,707 improperly charged to other OMH-funded programs.

<u>Questionable Expenses</u>

We determined that $109,987 of the expenses we sampled may be reasonable and necessary for the Program but require additional review by OMH to make a final determination. We believe there is material risk that, after OMH's reviews of pertinent supporting documentation and performance of related quantitative analysis, significant portions of these questionable expenses would not be eligible for reimbursement. These questionable costs include:

- **<u>$53,505 in vehicle operating costs:</u>** Although DCS and LOD have assigned vehicles to be used by employees of their respective Programs, each entity handles vehicle operating costs differently. LOD charges the costs of operating Program vehicles directly to the Program, while DCS pools all vehicle operating costs – both Program and non-Program related – and then allocates the pooled cost among all its programs. Since DCS has also assigned specific vehicles to the Program, it too should charge the costs of operating those vehicles directly to the Program. OMH needs to review these costs, and work with DCS to determine the correct amount of vehicle operating costs that should have been charged to the Program. In addition, we noted that neither DCS nor LOD require their employees to sign out pool vehicles or to log trips (including date, destination, and mileage). This is a common business practice to ensure that pool vehicles are not being used for personal purposes and to determine the usage by program.

- **<u>$41,624 for pension costs charged to the Program:</u>** The DePaul Group and its affiliates stopped offering a pension plan in October 2006, and employees hired after this date do not receive a pension. However, DCS and LOD allocate their pension costs across all their programs regardless of whether the employees working on those programs are actually eligible to receive a pension. Instead, DCS and LOD should track which employees work for the Program and then charge the Program for pension costs associated only with those employees. This will ensure that the Program is only charged pension costs for employees who actually have pensions and are working with Program clients. OMH should work with DCS and LOD to determine the appropriate amount of pension costs that should have been charged to the Program.

- **<u>$14,859 for gift cards reportedly purchased for clients:</u>** Our analysis of DCS's and LOD's reported Program expenses identified $14,859 in gift cards from well-known retail stores and supermarkets. We note that gift cards pose a particularly high risk because they are very susceptible to misappropriation and can easily be used by anyone or converted to cash. OMH's Program guidance and the Manual itself are silent on the issue of gift cards. However, Appendix X of the Manual indicates that where "State codes, rules and regulations are silent, (OMH) will defer to the guidelines published in the Provider Reimbursement Manual." Thus, although this document (also called the PRM-15) is published by the Centers for Medicare and Medicaid Services, its provisions could apply to most all State program costs reported on the CFR. According to the PRM-15, gifts are not necessary program costs, if not common or accepted occurrences in the provider's field of activity. Further, the State Education Department, which also requires its service providers to submit CFRs, has issued guidance that strictly prohibits claiming the costs of gifts as an allowable program expense.

  Initially, we categorized the gift card costs as Not Allowable. However, in their response to the draft audit report, OMH officials stated that costs for gift cards could be considered appropriate Program expenses if the cards were used to help individuals who lack basic living skills to understand how to use money and make basic purchases (of items such as groceries and clothes) independently. Officials emphasized that these basic skills are critical for participants to succeed in supported housing and transition to independent living. Based on OMH's Program guidance, a portion of supported housing funds are intended to provide ancillary services to help clients successfully function and remain in the community, and service providers are expected to identify which ancillary services are needed by each client. Thus, gift cards could, as OMH officials assert, help provide clients with ancillary services.

However, OMH had not issued any formal guidance to service providers on gift card use. In addition, although gift cards are inherently high-risk items, OMH had taken no steps to verify that the DePaul Group's use of gift cards was consistent with the circumstances discussed in OMH's response. Further, our review of the limited available documentation did not indicate that the gift cards were used for the aforementioned Program purposes. To the contrary, we determined that:

- Virtually all of the gift card purchases occurred immediately before Christmas in 2013 and again in 2014 and were labeled as client "gifts" or "Christmas gifts for clients" in the organizations' financial records. Further, there were no similar gift card purchases outside the holiday periods;
- The gift cards were purchased for distribution to all Program participants. There was, however, no indication of any assessment of participants' relative skill levels or the need for education about independent shopping issues; and
- The DePaul Group kept no records to indicate which cards were actually distributed to which participants or how the cards were used. Further, the participants were not asked to acknowledge receipt of any cards, so there was no definitive proof that they actually received them. Finally, clients were not required to provide receipts or other evidence of the items purportedly purchased with the gift cards. These conditions created a significant opportunity for misuse or misappropriation of the cards.

Based on OMH's response, we re-categorized these expenses as Questionable. Nonetheless, from a fiscal control standpoint, a core issue remains. Were the gift cards provided simply as "gifts" (as the DePaul Group's records suggested)? Or were the gift cards used as tools to teach clients basic skills needed to live independently? Given OMH's position, we believe that OMH staff should review the available documentation to determine if participants demonstrated the need to learn this life skill, and if the use of gift cards was the best way to fulfill that need.

Administrative Expenses

In addition to the direct Program expenses, service providers are allowed to report administrative expenses on their CFRs. For affiliates such as DCS and LOD, these expenses include both the administrative costs they incur themselves and the amounts charged by – and paid to – the parent company for allocated expenses. According to the Manual, providers must report parent agency administration charges separately on the CFR and are also required to submit documentation supporting them. Failure to do so could result in the disallowance of those amounts.

The DePaul Group charges two types of administrative expenses to its affiliates: a management service fee, which covers executive support, and a more general allocation of administrative expenses (e.g., human resources services, payroll processing).

Table 2 shows total management service fees and allocated administrative expenses that the DePaul Group charged to DCS and LOD, as reported on their 2013 and 2014 CFRs.

Table 2 - DePaul Group Administrative Expenses for 2013 and 2014

	Management Service Fee	Allocated Administrative Expenses	Total
DCS	$464,668	$1,157,093	$1,621,761
LOD	370,000	845,408	1,215,408
Totals	**$834,668**	**$2,002,501**	**$2,837,169**

The reported amounts serve as the basis on which DCS and LOD allocate these expenses among their various programs. For the two-year period 2013 and 2014, DCS and LOD charged the Program a combined total of $61,277 for the management service fee and $154,985 for allocated expenses, for a total of $216,262 out of the $2,837,169 shown in Table 2 above. The remaining balance of the DePaul Group expenses were charged to other OMH-funded programs. Based on our review of the affiliates' supporting documentation provided to us and the manner in which DCS and LOD reported these amounts on their CFRs, we question the entire $216,262 charged to the Program.

Both DCS and LOD reported the management service fee as parent agency administration on their CFRs. However, neither affiliate provided the supporting documentation to OMH as the CFR Manual requires, nor did OMH request the documentation as part of its CFR desk reviews. After we brought this issue to their attention, DCS and LOD provided the supporting documentation to OMH. OMH reviewed the supporting documentation and initially determined it was sufficient to support the amounts reported. However, we note that the supporting documentation that DCS and LOD provided to us and submitted to OMH only showed how each affiliate's allocated portion was calculated and did not specify what DePaul Group expenses were covered by the management service fee. Without explanations of which DePaul Group expenses are covered by the management service fee, OMH cannot readily determine whether the items included as allocated expenses were different from those covered by the service fee.

Both DCS and LOD reported the allocated expenses from the DePaul Group as if they were incurred by the affiliates themselves rather than by the parent company. The rationale for this decision is that these costs were incurred on their behalf, even though the DePaul Group allocated the costs among all its affiliates rather than directly charging each affiliate for the exact costs incurred on behalf of that affiliate. By reporting expenses in this manner, the affiliates were not required to submit supporting documentation. As a result, OMH would only receive such documentation for review if it specifically requested it as part of a desk review. In the future, DCS and LOD should report these costs as parent agency administration and include supporting documentation as required.

Contingency Funds

OMH's Supported Housing Guidelines require Program service providers to maintain contingency funds to help resolve situations that place clients at risk of losing their apartment. Examples of appropriate expenses include furniture storage costs, rent assistance when a client is in the hospital or loses a roommate, and the cost of minor repairs that are the tenant's responsibility. Providers are generally required to make available an average of $500 per client per year for contingency funds from the stipends they receive. Based on their average number of clients served, DCS should have about $96,000 and LOD $120,500 in contingency funds available to support these costs each year. However, neither DCS nor LOD has set aside any money for a contingency fund, and neither tracks contingency fund spending other than by making a handwritten notation on individual invoices. Therefore, neither DCS nor LOD can report how much they made available or how much was spent; nor can they demonstrate that contingency funds were spent only for their intended purpose – to prevent clients from losing their housing. As a result, we cannot determine whether DCS and LOD are in compliance with OMH guidelines regarding contingency funds, and neither can OMH.

As part of a 2015 update to the Program guidance from OMH, service providers such as DCS and LOD are now required to report contingency spending on the CFR, on Form DMH-2. This allows OMH to determine how much was spent so that it can verify whether those expenses were appropriate, given how contingency funding is to be used. Nonetheless, DCS and LOD officials told us they were not aware they needed to report contingency spending separately on the CFR until the spring of 2015. DCS and LOD officials further asserted that OMH guidelines on contingency funds allow providers latitude in determining what constitutes an emergency that would jeopardize a client's housing situation, rather than restricting them to certain categories of expenditures. DCS officials further told us that they have used contingency funds to assist clients with purchases of food when they first enter the Program. However, contingency funds are intended to help clients remain in their existing housing, not to set up a household when they initially move in. As a result, this appears to be a questionable use of contingency funds that OMH should review.

In responding to our draft report, OMH states that budget constraints due to increasing Program expenses often limit the ability of providers to set aside contingency funds. Therefore, they pointed out that Supported Housing Guidelines state that contingency funds ***should***, but are not ***required***, to be set aside annually from the annual per unit operating subsidy. However, a Questions & Answers document that OMH published as clarification for its 2015 Supported Housing Guidelines states that "For the Scattered-site Supported Housing units, setting aside $500 per year per consumer in contingency funds is required" (per Item #42). OMH's guidelines define scattered-site supported housing as "rented apartments scattered throughout the community," which is how both DCS and LOD place their clients. Based on this direction, these providers are clearly required to set aside contingency funds in order to be in compliance with OMH's guidance. Furthermore, it is also important to note that the DePaul Group never indicated it did not have money to set aside in a contingency fund. In fact, certain expenditures were clearly marked "Contingency Fund."

Recommendations

4. Recover the $41,743 in expenses we identified as not reasonable, necessary, or allowable for the Program or not supported.

5. Recover the additional $9,707 related to the November 2014 ACL Conference charged to other OMH-funded programs which we identified as not allowable.

6. Review the $109,987 in questionable expenses we identified to determine whether they are reasonable and necessary for the Program, and recover any amounts determined to be not allowable.

7. Require service providers to use mileage or other vehicle use logs to document their use of Program vehicles.

8. To the extent practical, require service providers to charge expenses directly to programs rather than allocate them among various programs.

9. Ensure that service providers submit all required documentation in support of their CFRs, including that required to support parent agency administrative charges.

10. Review the supporting documentation for the $216,262 that the DePaul Group charged to DCS and LOD for administrative expenses. Determine whether and to what extent these parent agency administrative expenses are allowable.

11. Ensure service providers handle contingency funds properly, including but not limited to:

    - Requiring separate tracking of, and reporting on, contingency fund spending,
    - Clarifying how to report contingency spending on the CFR, and
    - Ensuring contingency fund spending complies with Program requirements.

Services Provided by DCS and LOD

We found that DCS and LOD housing specialists were generally providing the necessary services to Program clients to enable them to live independently. Based on our review of the case files, housing specialists were visiting clients monthly, as required by the Program. However, housing specialists did not always conduct their visits in clients' homes. Missing this opportunity to assess living conditions, housing specialists might not be aware if clients are living in substandard conditions. Finally, despite guidance from OMH that no client should pay more than 30 percent of their income for rent (including utilities), we found several clients were paying significantly more, which could make it more difficult for them to remain in their housing for the long term.

Review of Client Case Files

Housing specialists maintain a case file of all information about each of their assigned clients, such as written support plans and amendments, rental stipend worksheets, lease agreements, mental health evaluations, and reports from visits. Based on our review of case files for a judgmental sample of 20 clients who were in the Program during 2013 and 2014 and who were still in the Program at the time of our visit, we determined the housing specialists visit each client at least once a month. However, case files contained varying levels of visit details, ranging from documentation of the date of visit only to documentation of topics discussed and issues noted by the housing specialist. Subsequent to our audit, DePaul Group officials informed us they plan to develop a standardized form for documenting client visits to ensure consistency in depth of detail.

We also reviewed clients' satisfaction surveys to determine whether they were satisfied with the services they had received. We found that Programs operating in some counties did not have any completed surveys on file, even though OMH and all of the counties require them. Based on the surveys that were available, we found that clients were generally satisfied with the services provided. However, we note that the surveys are returned to DCS or LOD rather than the county or OMH, which could lessen their usefulness. Even though the surveys are anonymous, clients may be less likely to provide negative feedback when the completed survey is sent to the service provider rather than to OMH or the county. Returning the surveys to OMH would also help the agency monitor its service providers.

Visits to Client Homes

During our review of the client case files, we found that the housing specialists do not always visit clients in their home. Instead, they may arrange to meet in a public place or while taking the client to an appointment. While it is understandable some clients may be uncomfortable having the housing specialist visit their home, the housing specialist cannot evaluate clients' living situation without such firsthand observation.

We asked all 20 clients in our sample whether we could visit their homes, and 14 agreed to allow us in. During our visits, we looked for health issues such as mold, bugs, and vermin; safety issues such as a lack of smoke or carbon dioxide detectors; and living condition issues such as a lack of heating, hot water, or proper ventilation (air conditioning or fans). Based on our observations, 13 of the 14 clients appeared to be in an acceptable living situation. However, the remaining client was living in an apartment in need of significant repairs due to a problem with the bathroom. The bathroom shower did not work, the stairways and kitchen ceiling had significant water damage, and there was mold in several places. According to the client, these conditions had existed for about six months. While the client had met with the housing specialist during those months, the meetings had all taken place at a public site rather than at the client's home, and the housing specialist had not observed the extent of the damage. After our visit to the client's home, we brought the situation to the attention of DePaul Group officials, who worked with the landlord to make the needed repairs.

As a result of our audit, DCS and LOD officials have informed us they now require that at least one visit each quarter be made at the client's home (rather than at a public location), in accordance with OMH guidelines. Further, officials have developed a process to withhold rent when a landlord does not make repairs timely. Because a Program goal is to ensure clients have acceptable housing, OMH supports these efforts.

Review of Rental Stipend Worksheets

Since the inception of the Program, clients have been expected to pay a portion of their rent and utilities, though not more than 30 percent of their income. As long as the housing is priced at fair market value, the service provider pays the difference, using the annual per-client stipend of $8,426 received from OMH. Because a goal of the Program is to help clients establish and remain in permanent housing, it is important that service providers ensure clients have housing they can afford. Therefore, service providers are expected tocomplete a rental stipend worksheet for each client.

Based on our review of rental stipend worksheets for our sample of 20 clients, we determined that the 30 percent rule functions more as a guideline than a hard-and-fast limit. Because clients should be given a choice where they live, housing specialists were reluctant to deny clients' request for housing, even if it was deemed too expensive. As a result, of the 20 clients we reviewed, four were paying more than 40 percent of their income for rent and utilities (and one of those was paying almost 50 percent of his income for such costs). OMH has developed a new rental stipend worksheet that, among other changes, requires prior approval by OMH if clients will have to pay more than 30 percent of their income for rent and utilities. This new procedure went into effect in 2015, and should help ensure clients obtain affordable housing they can actually afford, thereby creating a more stable living situation. To assist with this, DCS and LOD housing specialists should only show clients housing they can afford.

Recommendations

12. Clarify the level of detail about client visits that should be documented in the case files, and communicate this standard to all service providers.

13. Ensure that client satisfaction surveys are completed, as required by the contract, and require they be returned directly to OMH or the county rather than to the service provider.

14. Ensure service providers visit each client in their home at least once every three months, as required by Program guidelines.

15. Work with service providers to develop procedures for ensuring that landlords do not receive rental stipends unless all needed repairs are completed promptly.

16. Before approving any housing requests, formally assess each client's ability to afford permanent housing if the rent will exceed 30 percent of income.

Audit Scope and Methodology

We audited whether the Office of Mental Health (OMH) is ensuring that the DePaul Group, Inc. and its affiliates, DePaul Community Services, Inc. (DCS) and Living Opportunities of DePaul, Inc. (LOD), expended funds appropriately and provided the required services under their Supported Housing Program contracts. The audit covered the 34-month period from January 1, 2013 to October 31, 2015.

To accomplish our objective and evaluate the relevant internal controls in place, we interviewed officials and employees at OMH headquarters in Albany, its western New York regional field office, Monroe and Erie counties, the DePaul Group, DCS, and LOD. We reviewed the CFR Manual and its related appendices, OMH regulations, OMH guidance on the Program, and other applicable guidance. We also reviewed the CFRs submitted by DCS and LOD for 2013 and 2014 (focusing on the Program locations) and the financial statements for DCS and LOD, as well as for the DePaul Group.

We reviewed the supporting documentation for a judgmental sample of $360,918 of the $6,111,330 in Program and administrative expenses reported by DCS and LOD on their CFRs. Our sample was selected based on the amounts, the vendor, and the category of expenses to which they were charged, and we reviewed the supporting documentation for the selected transactions. In addition, we reviewed the supporting documentation for the $216,262 in administrative costs charged to DCS and LOD by the DePaul Group, judgmentally selected 20 individuals who were long-term participants in the Program and reviewed their files, and visited 14 of the selected clients in 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 that 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 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 as set forth in Article V, Section I of the State Constitution and Article II, Section 8 of the State Finance Law.

Reporting Requirements

We provided a draft copy of this report to OMH officials for their review and formal comment. We considered OMH's comments in preparing this report and attached those comments in their entirety at the end of the report. In their response, OMH officials disagreed with several of our audit's observations and conclusions. However, officials generally concurred with the intent of most of our report's recommendations. Based on OMH's comments, we revised certain matters in this report, including the categorization and dollar amounts of particular findings and their related recommendations. Also, 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 what steps were taken to implement the recommendations contained herein, and if the recommendations were not implemented, the reasons why.

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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.

Agency Comments

NEW YORK STATE OF OPPORTUNITY. | Office of Mental Health

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August 12, 2016

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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: DePaul Group, Inc. and Affiliates" (2015-S-42). Our comments to the findings and recommendations are enclosed.

The Office of Mental Health appreciates OSC's efforts to recommend improvements in our operations.

Many thanks for your continued help and cooperation.

Sincerely yours,

Martha Schaefer

Martha Schaefer
Executive Deputy Commissioner

Enclosure

44 Holland Avenue, Albany NY 12229 | omh.ny.gov

OFFICE OF MENTAL HEALTH
RESPONSE TO OFFICE OF THE STATE COMPTROLLER
DRAFT REPORT 2015-S-42
OVERSIGHT OF THE SUPPORTED HOUSING PROGRAM
DePAUL GROUP, INC. AND AFFILIATES

OMH has reviewed the findings and recommendations in the Office of the State Comptroller's draft report (2015-S-42) entitled "Oversight of the Supported Housing Program: DePaul Group, Inc. and Affiliates." In Section I, OMH will respond to OSC's incorrect assertion that OMH does not provide sufficient fiscal oversight and programmatic guidance to its supportive housing program providers. In Section II, OMH will respond to OSC's proposed recommendations regarding OMH's oversight of its supportive housing program, and where necessary, identify where OSC makes statements and findings that are factually or legally without merit. In section III, OMH will respond to OSC's specific recommendations about DePaul Group, Inc. and Affiliates.

I. <u>OMH's General Responses to OSC's Findings</u>

OMH strongly refutes OSC's assessment that OMH does not provide sufficient program support and guidance for its supported housing program.

First, OMH strongly disagrees with OSC's finding that OMH "has not provided sufficient fiscal oversight and programmatic guidance to ensure that claimed expenses are program appropriate or that certain program goals are achieved" 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. Technical assistance is also provided. After the review, OMH personnel hold a summation conference with the agency to discuss any findings. In cases where there is an issue related to resident safety, 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.

* Comment 1

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.

* Comment 2

Second, OMH strongly objects to OSC's use of State Education Department (SED) guidance and the Provider Reimbursement Manual to analyze OMH's supported housing program. This is inappropriate, as neither criteria is applicable.

* Comment 3

Lastly, the majority of OSC's findings consist of disagreement with allocation methods used by the provider. Included in the questionable cost category are findings of $95,129 which consist of allowable program costs in which OSC disagrees with the allocation methodologies used. While OMH will certainly review the allocation methods used by DePaul, it should be noted that any needed revision to those costs will likely be minimal and could potentially result in an increase in allowed costs.

*See State Comptroller's Comments, page 31.

II. OMH's Specific Comments to OSC Audit Statements

1. **OSC Statement:** On page 6, third paragraph OSC states, "without proper guidance, it appears service providers may determine for themselves what services clients should receive and the nature of the expenses that maybe claimed on the CFR."

   OMH Comments: OSC's statement reflects a fundamental misunderstanding about how the SH Guidelines work. The SH Guidelines empower service providers to tailor services to clients. This type of individualized treatment and assessment is exactly what service providers should be doing in order to best serve persons in need of supported housing.

   * Comment 4

   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 fully compliant with the Americans with Disabilities Act and clinically effective.

   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.

   * Comment 5

2. **OSC Statement:** OSC states on page 7, third paragraph, that "OMH appears to have intentionally kept its guidance vague to allow providers flexibility in meeting the needs of individual clients, and has not developed specific guidance and/or established criteria regarding the eligibility of certain Program expenses." It goes on to say that, "OMH should review the Manual (including its appendices) to identify and create the necessary supplemental guidance on allowable Program costs to help ensure that service providers' reported expenses are allowable."

   OMH Comments: OMH guidelines are not vague. Rather, they provide flexibility regarding program guidelines that is necessary to meet the needs of individual clients. 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.

   * Comment 6

3. **OSC Statement:** On page 9 in the narrative section of the draft audit report, OSC references $27,020 in expenses that OSC classified as "not allowable" because of allegedly insufficient supporting documentation. OSC states that "OMH should review the supporting documentation, maintained by DCS and LOD, for these transactions to ensure that they are reasonable and necessary for Program services." However, on page 14 in recommendation #4, OSC directs OMH recover those expenses identified as "not reasonable, necessary, or allowable for the program or not supported" (which includes the $27,020 in unsupported transactions).

   OMH Comments: OMH requires that all providers support their expenses with thorough documentation. OMH disagrees that the $27,020 in "unsupported" transactions should be recovered until the supporting documentation is requested and reviewed.

   * Comment 7

4. **OSC Statement:** On page 10, OSC compares OMH to SED and references SED's Reimbursable Cost Manual. OSC states, "While OMH has not specifically addressed the issue of gift cards in its guidelines, we do note that the State Education Department, which also requires service providers to submit CFRs, has issued guidance that strictly prohibits claiming the cost of gift cards as an allowable expense for its programs."

   OMH Comments: OSC draws an inappropriate comparison between OMH and SED, because the two agencies provide two completely different program models. 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.

   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 is an important tool for OMH to use in achieving community integration. Notably, such integration is not only regarded as 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.

   * Comment 8

5. **OSC Statement:** On page 10, OSC states that "[f]urthermore, the Manual references certain provisions of the Provider Reimbursement Manual (PRM) published by the Centers for Medicare and Medicaid Services, which stated that gifts are not common or accepted occurrences in the provider's field of activity and so are not necessary costs."

   OMH Comments: OSC's reliance on the PRM as a benchmark for evaluating the supported housing is inappropriate. The PRM is a federal guidance document covering multiple program types that are funded by Medicaid or Medicare. However, OSC's reference to the PRM does not apply to OMH because supported housing is not funded by Medicaid or Medicare.

   * Comment 9

   Even if the PRM did apply, it would actually categorize gift cards as an acceptable program cost. The PRM defines costs related to patient care as "all necessary and proper costs which are appropriate and helpful in developing and maintaining 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 clearly 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 and independent lives is critical for participants in the SH program to thrive in their supported housing.

   * Comment 8

6. **OSC Statement:** OSC states on page 13 that "OMH's SH Guidelines require Program service providers to maintain contingency funds to help resolve situations that place clients at risk of losing their apartment."

   OMH Comments: This statement is not true. The OSC report converts an advisory "should" to a mandatory "requirement." Budget constraints 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

   * Comment 10

3

per unit annual OMH operating subsidy." The maintenance of contingency funds is not an OMH requirement, and OMH has made OSC aware of this. It is noted that language surrounding contingency funds is inconsistent between the SH Guidelines and the corresponding SH Guidelines Questions and Answers document. OMH will review all criteria to ensure that the guidance surrounding contingency funds is consistent.

7. **OSC Statement:** OSC states on page 16 that "OMH has developed a new rental stipend worksheet that, among other changes, requires prior approval by OMH if clients will have to pay more than 30 percent of their income for rent and utilities. This new procedure went into effect in 2015, and should help ensure clients obtain affordable housing."

   OMH Response: OSC has clearly recognized an example of proper OMH program oversight in its handling of resident payments for rent and utilities. However, on page 6 of the report, this same program oversight was used by OSC as an example of OMH not providing sufficient programmatic guidance. OMH requests that the reference on page 6 be corrected to be consistent to the statement on page 16.

* Comment 11

III. OMH's Responses to OSC's Specific Recommendations

o **OSC Recommendation No. 1**

Establish effective fiscal and programmatic controls to ensure that: providers' use of Program funds are appropriate, allowable, and documented; Program requirements are followed; and Program goals are achieved. Controls should include, but not be limited to:

- Expanded desk reviews of provider CFR's to include review, on a sample basis, of supporting documentation to ensure that claimed Program expenses are reasonable, necessary, and allowable.
- Ensuring that guidance issued to counties and to service providers is consistent;
- Clarifying expectations of the counties, the OMH regional offices, and the OMH main office, especially when a service provider receives Program funding both directly from OMH and through a county;
- Improved communication among oversight entities; and
- Ensuring the regional offices are performing the required monitoring of Program service providers.

OMH Response 1

OMH has already established fiscal and programmatic monitoring programs that require providers to report accurately and appropriately and maintain documentation of OMH program expenditures. OMH annually reviews contracts that are up for renewal to ensure that service providers are meeting programmatic goals and fulfilling reporting requirements. Additionally, OMH will:

- consider expanded desk reviews within the context of limited agency resources;
- review existing guidance to ensure it is consistent across counties and service providers;
- ensure that programmatic and fiscal expectations are clear for all sources of funding; and,
- continue ongoing efforts to improve communication among oversight agencies.

OMH also already ensures that regional offices are performing the required monitoring of program service providers through our contract renewal process.

- **OSC Recommendation No. 2**
  Develop supplemental guidance for service providers on allowable Program costs.

  OMH Response 2
  OMH provides guidance to its providers on allowable program costs. OMH continually reviews such guidance, and will determine whether supplemental information is needed.

- **OSC Recommendation No. 3**
  Determine whether a per-bed allocation methodology is reasonable for shared costs, and notify all service providers of the decision made.

  OMH Response 3
  A per-bed allocation methodology is appropriate in certain circumstances and is just one reasonable method that can be used. OMH programs are delivered in a variety of settings, including 24/7 residential group home and apartments, medical offices, crisis response teams, vocational, and peer-based support. There are over 100 program types listed in Appendix F of the CFR Manual, with almost as many different calculations of units of service. The allocation of expenses on the basis of units of service between OMH programs of different types would not be reasonable or meaningful. However, OMH is contemplating future guidance that would allow allocation by units of service between OMH programs of the same program code and type, and with the same calculation of units of service. Providers will be notified of any changes in programmatic or fiscal guidelines for OMH programs.

  * Comment 12

- **OSC Recommendation No. 4**
  Recover the $56,602 in expenses we identified as not reasonable, necessary, or allowable for the Program or not supported.

  OMH Response 4
  OMH will follow-up on the expenses that OSC asserts are not reasonable and will recover expenses as appropriate.

- **OSC Recommendation No. 5**
  Recover the additional $9,707 related to the November 2014 ACL Conference charged to other OMH-funded programs which we identified as not allowable,

  OMH Response 5
  OMH will follow-up on the expenses that OSC asserts are not allowable and will recover expenses as appropriate.

- **OSC Recommendation No. 6**
  Review the $95,129 in questionable expenses we identified to determine whether they are reasonable and necessary for the Program, and recover any amounts determined to be not allowable.

  OMH Response 6
  OMH will follow-up on the expenses that OSC asserts are not reasonable and will recover expenses as appropriate. As mentioned previously, the cost categories are allowable (i.e., pension, vehicle costs) and are both reasonable and necessary but may not have been allocated consistently across the affiliated DePaul entities.

- **OSC Recommendation No. 7**
  Require service providers to use mileage or other vehicle use logs to document their use of Program vehicles.

  OMH Response 7
  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. 8**
  To the extent practical, require service providers to charge expenses directly to programs rather than allocate them among various programs.

  OMH Response 8
  OMH already requires providers to direct charge expenses as much as possible. Page 42.2 of the CFR Manual (Appendix I) states that all attempts should be made to directly charge an expense to the appropriate cost center. Page 43.0 (Appendix J) of the CFR Manual states that allocation guidelines should be used only after all attempts should be made to directly charge an expense. OMH will continue to work with DePaul to ensure that appropriate accounting procedures are followed for CFR reporting purposes.

- **OSC Recommendation No. 9**
  Ensure that service providers submit all required documentation in support of their CFR's including that required to support parent agency administrative charges.

  OMH Response 9
  OMH has received all required documentation from a majority of service providers and will continue to follow-up with those providers who have yet to submit their documentation.

- **OSC Recommendation No. 10**
  Review the supporting documentation for the $216,262 that the DePaul Group charged to DCS and LOD for administrative expenses. Determine whether and to what extent these parent agency administrative expenses are allowable.

  OMH Response 10
  OMH will review the submitted parent agency administration allocation information and determine if the expenses are allowable. OMH will work with the other CFR agencies to enhance guidance regarding the reporting of parent agency administration and the purchase of services from related entities.

- **OSC Recommendation No. 11**
  Ensure service providers handle contingency funds properly, including but not limited to:

  - Requiring separate tracking of, and reporting on, contingency fund spending,
  - Clarifying how to report contingency spending on the CFR, and
  - Ensuring contingency fund spending complies with Program requirements.

  OMH Response 11
  Increasing program expenses often limit the ability of providers to set aside contingency funds. As a result, the SH Guidelines state only that these funds should be set aside if available; it is not a requirement. OMH will review all current guidance on this issue, and

6

revise as needed, to ensure that all guidance is consistent and clear. OMH will communicate the result of its work to all service providers.

- **OSC Recommendation No. 12**
  Clarify the level of detail about client visits that should be documented in the case files, and communicate this standard to all service providers.

  OMH Response 12
  Housing specialists should include progress notes for every contact with the supported housing resident, whether face-to-face or telephonic, as well as any other contact which impacts the resident's housing situation (e.g. landlord, care manager). Consistent with the 2015 SH Guidelines, at least one progress note per month should document a face-to-face contact. The Supported Housing Questions and Answers, also posted with the SH Guidelines, indicate that "A support plan is used to identify the services and supports needed to support an individual in his/her apartment"; that the support plan "is to be reviewed every three months"; and that "If the individual is stable and the needs of the individual have not changed or the information on the support plan is still up to date and no changes are needed, the housing provider should indicate as such during the quarterly review."

  In addition to the above, OMH will review OSC's recommendation and determine what additional level of detail may be needed.

- **OSC Recommendation No. 13**
  Ensure that client satisfaction surveys are completed, as required by the contract, and require they be returned directly to OMH or the county rather than to the service provider.

  OMH Response 13
  The 2015 SH Guidelines reinforce OMH expectation that recipients have "formal input into development of agency supported housing practices." OMH will continue to emphasize with providers the importance of a formal system to provide input through satisfaction surveys, as well as other means such as suggestion boxes, resident advisory boards and resident councils.

  OMH does believe, however, that surveys should continue to go directly to the service provider because this is the most direct line of communication with the provider. OSC's assumption that "clients may be less likely to provide negative feedback when the completed survey is sent to the service provider rather than OMH or the county" is not grounded in any evidence presented by OSC. It could be argued that requiring residents to send surveys directly to a regulatory body could compromise the relationship the provider has with the resident and could have a chilling effect on residents' willingness to participate in satisfaction surveys.

- **OSC Recommendation No. 14**
  Ensure service providers visit each client in their home at least once every three months, as required by Program guidelines.

  OMH Response 14
  OMH Central Office will continue to work with the regional field offices during programmatic reviews to ensure that the requirements for client visitation are fulfilled by service providers.

- **OSC Recommendation No. 15**

Work with service providers to develop procedures for ensuring that landlords do not receive rental stipends unless all needed repairs are completed promptly.

OMH Response 15
OMH will explore this policy recommendation.

- **OSC Recommendation No. 16**
  Before approving any housing requests, formally assess each client's ability to afford permanent housing if the rent will exceed 30 percent of income.

  OMH Response 16
  The OMH SH Guidelines require providers to assess each client's income and ability to afford permanent housing. While case managers may encourage clients to seek housing with rents that will not exceed 30% of tenant income, clients may independently identify or choose apartments that exceed that threshold. In those cases, the SH Guidelines indicate OMH's approval is required.

State Comptroller's Comments

1. As noted in our draft report, OMH's western New York regional field office (which is responsible for both DCS and LOD) did not visit either DCS or LOD in 2013 or 2014. Field office staff site-visited LOD once in 2015, which included visiting six of the approximately 240 clients LOD served. Under these circumstances, we question whether the field office provided "rigorous oversight" of DCS. Further, we maintain that the observations and conclusions in our report are accurate and appropriate.
2. According to the CFR-ii (Independent Accountants Report) and Appendix AA of the CFR Manual, the CPA firm verifies that the total amount claimed for each category is correctly carried forward from the entity's financial statements and records, not that the individual transactions were allowed under guidelines for each program reported on the CFR.
3. We did not use the SED guidance to evaluate OMH's program; we only used the CFR Manual and the guidance issued by OMH. Because OMH does not have specific guidelines, we looked at what other agencies do. Our reference to SED guidance is an example, although a different program, for OMH officials to consider when developing their own guidance.
4. While we agree that the service providers should decide what services are most appropriate to meet each client's individual needs, OMH needs to ensure that all clients are given the same opportunities to live independently. To that end, every service provider needs to know which services may be provided under the Supported Housing Program and which services should be provided by another program.
5. We found expenses that were clearly not allowed by Appendix X of the CFR Manual, such as alcoholic beverages.
6. The Supported Housing Guidelines provide a framework for service providers to determine what services a client is eligible for, but not detailed guidance on which types of expenses are acceptable. As detailed in our report, DCS and LOD both claimed expenses that either were not allowed by the CFR Manual (such as alcohol) or could be allowed if OMH had issued clear guidance to providers regarding documentation of the benefits to clients (such as the case for gift cards).
7. Guidelines require documentation be maintained. Absent documentation, neither we nor OMH can assess the appropriateness of the DePaul Group expenses. We therefore disallowed those expenditures.
8. OMH does not currently require its service providers to document the benefit to clients from receiving gift cards, nor does it require them to document that clients used the gift cards to make appropriate purchases. Further, both DCS and LOD, in their internal documents, referred to the gift cards as being holiday presents for all clients rather than targeted assistance for specific clients.
9. Appendix X of the CFR Manual states that if "State codes, rules and regulations are silent, DMH will defer to the guidelines published in the Provider Reimbursement Manual." Since OMH had not issued formal guidance on gift cards, the PRM is applicable.
10. The 2015 Supported Housing Guidelines: Questions & Answers states that "For the Scattered-site Supported Housing units, setting aside $500 per year per consumer in contingency funds is required" (per Item #42). The 2015 Supported Housing Guidelines defines scattered-site supported housing as "rented apartments scattered throughout the

community" (p. 17). As DCS and LOD placed clients in apartments, they were required to establish contingency funds to comply with OMH's guidance. To appropriately oversee service providers, OMH officials should ensure compliance with formal guidelines, rather than assert that the clarification they issued to their own guidelines was inconsistent with those guidelines.

11. In our draft report, we acknowledged the change when the issue was first raised (in the Programmatic Oversight section) and when the impact on the clients was discussed (in the Review of Rental Stipend Worksheets section). Nevertheless, although OMH revised its guidelines, the fact remains that some clients exceeded the 30 percent threshold because the guidance in effect at the time the rental stipend worksheets were completed was not clear.
12. The two service providers, DCS and LOD (both affiliates of the DePaul Group), used different methods to handle the same types of certain expenses. Thus, we maintain that this clearly exemplifies the need for OMH to clarify guidance on how certain Supported Housing Program expenses should be reported.