NEW YORK STATE | Office of Alcoholism and Substance Abuse Services

ANDREW M. CUOMO
Governor

ARLENE GONZÁLEZ-SÁNCHEZ, M.S., L.M.S.W.
Commissioner

September 27, 2016

Mr. John F. Buyce
Office of the State Comptroller
Division of State Government Accountability
110 State Street – 11th Floor
Albany, NY 12236-0001

Re: 90 Update on OSC Report 2015-S-84

Dear Mr. Buyce:

With regard to Office of the State Comptroller's (OSC) audit report 2015-S-84 "Drug and Alcohol Treatment Program: Provider Claiming of Depreciation Expense," the NYS Office of Alcoholism and Substance Abuse Services (OASAS), in compliance with Section 170 of the Executive Law, provides the following update on steps that have been taken to implement the audit recommendations.

With regard to the identified non-allowable depreciation expenses that, according to the OSC audit, were inappropriately claimed by various OASAS-funded providers, OASAS' Fiscal Audit and Review Unit (FARU) has taken a two prong approach to recover these expenses and to ensure that identified non-funded depreciation expenses are not used to increase provider budgets.

With each new fiscal review or audit conducted by FARU auditors, the Consolidated Fiscal Reports (CFR) submitted by those providers that correspond to the OSC report are being analyzed to validate the OSC findings. Where confirmed, the claiming of this non-allowable expense is noted as a finding with a corresponding recommendation requiring repayment and included in a draft report issued to the provider. In compliance with OASAS process, the provider is given 30 days to respond and provide any documentation or explanations to be considered in the preparation of a final report. The final report, which takes into consideration the provider's response, directs the provider to make restitution and provides options of how to do so. Options could include revising prior CFRs with the CFR System which automatically calculates any required repayment based on a providers established budget and state aid payments already made for those periods, making a direct repayment, or having future funding advances reduced. Different options are permitted to accomplish the recoupment while not hindering the provider's ability to maintain vital services to our target population.

The second approach, also undertaken by FARU auditors and happening concurrently, involves an analysis not related to either a current fiscal review or audit. Due to the volume of OASAS-funded providers who were identified by the OSC as claiming depreciation expense, FARU, starting with the highest dollar amounts, is analyzing the provider's CFR submissions. We are then issuing letters notifying the providers of the combined OSC/OASAS findings, and, consistent with the repayment option outlined above, are directing the providers with the prescribed methodology to make appropriate restitution.

Insofar as establishing effective monitoring controls to ensure that provider claims do not include depreciation expense, the OASAS Bureau of Provider Monitoring and Funding, in conjunction with the

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OASAS Office of Audit Services, has created a pre-audit unit charged with proactively reviewing all newly submitted CFRs and corresponding schedule DMH-2 claiming documents to ensure that provider's annual submissions do not contain this non-allowable expense. As identified, providers are contacted and directed to correct and resubmit their annual submission. Future funding advances may be withheld for non-complaint providers.

In an effort to take this process one step further, OASAS is currently awaiting Division of the Budget approval to hire two additional grade 18 Senior Auditors to further bolster the work of this newly established pre-audit to ensure that non-allowable expenses that are easily identifiable by reviewing the CFR submission, including, but not limited to, depreciation expense, interest expense, late fees, and bad debt expense are not being claimed on new submissions.

Lastly, FARU is revising its fiscal instrument to include specific language to ensure that non-allowable expenses such as depreciation expense are identified, disallowed and that appropriate steps are taken to obtain recoupment.

Very truly yours,

Steven J. Shrager

Steven J. Shrager
Director, Office of Audit Services

cc: Robert Kent
Tara Gabriel
Trisha Schell-Guy
Donald Geary