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

Division of State Government Accountability

Drug and Alcohol Treatment Program: Provider Claiming of Depreciation Expenses

Office of Alcoholism and Substance Abuse Services

Report 2015-S-84

June 2016

Executive Summary

Purpose

To determine whether the Office of Alcoholism and Substance Abuse Services (OASAS) is effectively monitoring Drug and Alcohol Treatment program contracts to ensure provider claims do not include State reimbursement for depreciation expenses. The audit covered the period January 1, 2010 through June 30, 2014.

Background

The New York State Office of Alcoholism and Substance Abuse Services (OASAS) oversees the nation's largest and most diverse addiction treatment system. Its mission is to provide accessible, cost-effective, quality services that strengthen communities, schools, and families through alcohol and drug prevention and treatment and to meet clients' individual needs through specialized services. OASAS enters into agreements with providers for delivery of specific alcohol- and drug-related services. OASAS reimburses the providers for the net costs they incur to provide the services for each contracted program, up to the maximum budgeted amount. The costs are reported via an annual Consolidated Fiscal Report (CFR), which is commonly used by several New York State agencies to monitor and oversee service providers' financial activity. According to the Consolidated Fiscal and Reporting Manual (Manual), OASAS providers are not allowed to budget for or claim any type of depreciation expense for reimbursement. OASAS' oversight responsibility includes ensuring provider compliance with the Manual when submitting reimbursement claims.

Key Findings

- OASAS is not effectively monitoring Drug and Alcohol Treatment program contracts to ensure provider claims do not include State reimbursement for depreciation expenses.
- We found providers inappropriately claimed $2,675,045 in depreciation expenses, of which $2,220,807 was funded by OASAS. Also, OASAS could potentially use the remaining $454,238 for inappropriate increases to providers' future program budgets.

Key Recommendations

- Recover from identified providers the $2,220,807 in depreciation expenses claimed that are not allowable.
- Make sure the $454,238 in non-funded depreciation expenses were/are not used to increase provider budgets.
- Establish effective monitoring controls to ensure provider claims do not include depreciation expenses. The controls should include (but not be limited to):
    - The use of enhanced data analytics, as described in this report, to identify depreciation expenses that providers inappropriately claim for reimbursement; and
    - Incorporation of specific criteria in the fiscal review process stating that depreciation expenses are not allowable, and specific audit steps in the Fiscal Review Instrument to identify and disallow claimed depreciation expenses.

Other Related Audit/Report of Interest

Office of Alcoholism and Substance Abuse Services: Samaritan Village, Inc.: Chemical Dependency Services Program (2011-S-38)

State of New York
Office of the State Comptroller

Division of State Government Accountability

June 8, 2016

Ms. Arlene González-Sánchez
Commissioner
Office of Alcoholism and Substance Abuse Services
1450 Western Avenue
Albany, NY 12203

Dear Commissioner González-Sánchez:

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 Alcoholism and Substance Abuse Services entitled *Drug and Alcohol Treatment Program: Provider Claiming of Depreciation Expenses*. This audit was performed according 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.

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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This report is also available on our website at: www.osc.state.ny.us

Background

The New York State Office of Alcoholism and Substance Abuse Services (OASAS) oversees the nation's largest and most diverse addiction treatment system. Its mission is to provide accessible, cost-effective, quality services that strengthen communities, schools, and families through alcohol and drug prevention and treatment and to meet clients' individual needs through specialized services.

OASAS enters into agreements with providers for delivery of specific alcohol- and drug-related services. OASAS reimburses the providers for the net costs they incur to provide the services for each contracted program, up to the maximum budgeted amount. The costs are reported via an annual Consolidated Fiscal Report (CFR), which is a common system used by several New York State agencies to monitor and oversee contract activity.

The Consolidated Fiscal and Reporting Manual (Manual) provides an abundance of information for providers, including how to properly complete the CFR and detailed information regarding which types of expenses are not allowed to be claimed for reimbursement by the providers. According to the Manual, OASAS does not allow service providers to budget for or claim any type of depreciation expense for reimbursement. OASAS does not reimburse providers for depreciation expense because, through net deficit funding, the agency has often already participated in the initial purchasing of the depreciable assets.

OASAS' oversight responsibility includes ensuring provider compliance with the CFR manual when submitting claims for reimbursement. Currently, OASAS ensures claims are accurate by having its Fiscal Audit and Review Unit conduct fiscal examinations of the providers. The Fiscal Audit and Review Unit has developed and implemented the Fiscal Review Instrument for Service Providers as its guide when conducting fiscal examinations of the providers.

OASAS' Administrative and Fiscal Guidelines for OASAS-Funded Providers allows it to recover monies in any instances where a funded provider has submitted claims for unallowable, unapproved, or inappropriate expenditures.

Audit Findings and Recommendations

We found OASAS is not effectively monitoring the reporting of expenses by service providers to ensure claims for State reimbursement do not include depreciation expenses. While OASAS does have a process in place to monitor the financial reporting by service providers, it is not effective in identifying all depreciation expenses inappropriately claimed by providers. Consequently, providers received about $2.2 million in improper reimbursements for depreciation charges during our audit period.

Unallowable Depreciation Expenses

Providers are required to first report on their CFR all expenses they incurred and then must back out any non-allowable expenses, like depreciation. The remaining amount is then claimed for reimbursement up to the contract amount. We analyzed CFR data for the 321 service providers OASAS currently oversees to determine if they reported depreciation and, if so, whether they backed out these costs when calculating their claimed expenses. If a provider reported depreciation but did not back it out, we further analyzed the CFR data to determine if there were unreimbursed expenses because the provider's claimed expenses exceeded its approved budget. We then offset the claimed depreciation expenses by any unfunded allowable amount. If depreciation exceeded the unfunded amount, we considered the difference to represent the depreciation amount that was claimed and reimbursed by OASAS.

Through this process we identified 106 providers that claimed and were reimbursed by OASAS for depreciation expenses totaling $2,710,643 over the course of 221 annual CFR reporting periods between January 1, 2010 and June 30, 2014. Our analysis of OASAS' fiscal reviews, which is explained in more detail below, showed that OASAS had already identified the same unallowable depreciation expenses totaling $35,598 on four CFRs submitted by separate providers. After accounting for OASAS' findings, we concluded that the remaining $2,675,045 in depreciation expenses were inappropriately claimed by OASAS providers and that $2,220,807 of these expenses were funded by OASAS. While not directly funded by the State in the first instance, OASAS could potentially use the remaining $454,238 to increase future program budgets for providers that claimed depreciation expenses. Of the 106 providers that claimed depreciation expenses, 10 were reimbursed by OASAS over $50,000 for such costs, of which four providers were reimbursed over $200,000.

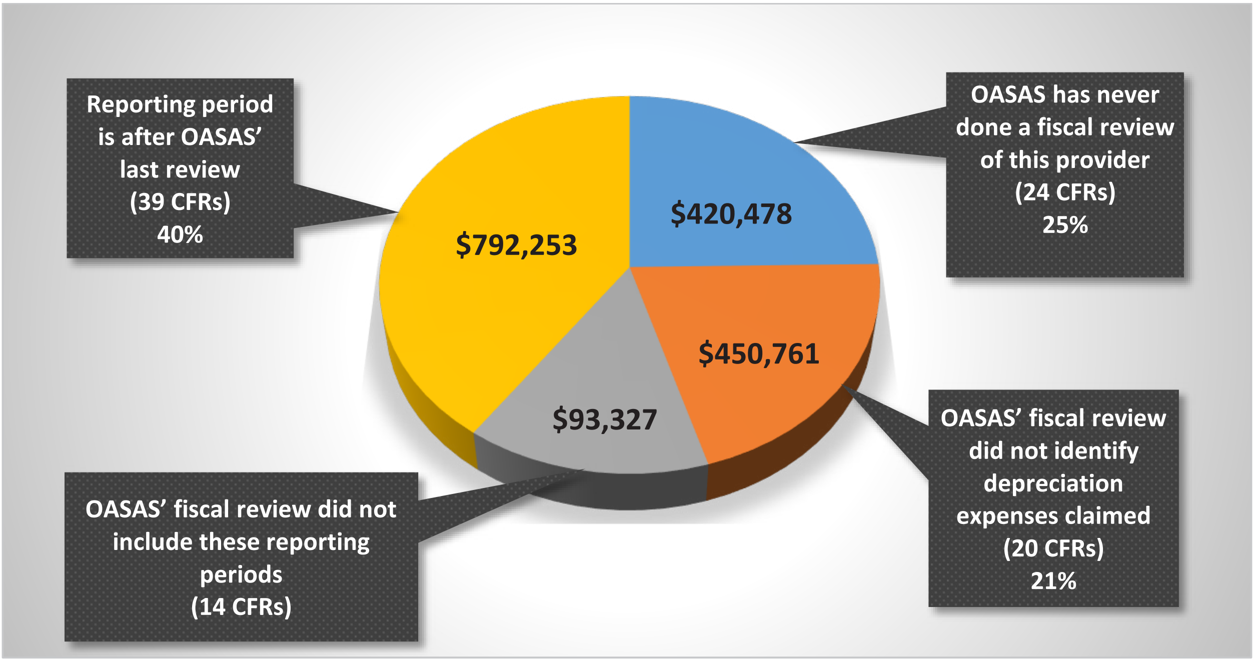
We found OASAS does not use sufficient data analytics on the reported CFR financial data to identify whether providers have inappropriately included depreciation expenses for reimbursement. In response to our audit findings, OASAS officials indicated they are looking into obtaining software that will allow them to perform more detailed data analytics of CFR data. In addition, beginning mid-year 2015, OASAS has started to implement a new form requiring providers to sign and attest that they are not claiming depreciation when they submit their CFR.

Monitoring Process

OASAS is responsible for monitoring the programs it funds to ensure State resources are used only for expenses that are program appropriate and supported. We found OASAS is not effectively monitoring the reporting of expenses by service providers to ensure claims for State reimbursement do not include depreciation expenses. OASAS' current method of identifying claimed depreciation expenses is primarily through on-site comprehensive fiscal reviews of the providers. Our examination showed that OASAS fiscal reviews covering the periods between January 1, 2010 and June 30, 2014 found approximately $1 million in unallowable depreciation expenses. However, many providers were not audited, some fiscal reviews performed did not disclose the depreciation claimed, and the fiscal reviews for other providers did not cover all program years. As a result, OASAS did not identify $2,675,045 in improperly charged depreciation expenses.

OASAS' goal is to audit each provider once every three to four years. During these reviews, OASAS uses its Fiscal Review Instrument (Instrument) as a basis to conduct their examination. The Instrument has an array of information and steps to be followed by reviewers, including a reference to the types of expenses that are not allowed to be claimed for reimbursement. However, the Instrument lacks reference directly stating that all depreciation expenses are not allowed to be claimed by providers as stated in the CFR Manual as well as specific audit steps to look for and disallow any depreciation claimed.

Of the 106 providers we identified, we judgmentally selected 44 providers (42 percent) – each of which specifically claimed depreciation as a program expense – to determine why OASAS did not uncover the unallowable depreciation expenses during its fiscal reviews. These 44 providers had submitted 101 CFRs during our review period. As discussed previously, OASAS found the same unallowable depreciation expenses, totaling $35,598, as we did for four of the 101 CFRs, each for a different provider. However, all four of these providers had other CFRs where they claimed depreciation expense that was not found by OASAS. The following chart shows the reasons why OASAS did not identify depreciation expenses totaling $1,756,819 claimed on the remaining 97 CFRs.



As the chart illustrates, in many cases, OASAS has never reviewed the provider (24 CFRs) or did not identify the depreciation charge during its review (20 CFRs). In some cases, OASAS' fiscal reviews did not include the reporting periods in which we found depreciation charges (14 CFRs). More commonly, the reporting periods with depreciation charges were after OASAS' most recent reviews (39 CFRs). For example, eight of these providers last had a fiscal review completed by OASAS between six and 12 years ago. It is undetermined when OASAS plans on auditing these providers again and whether or not they would review these reporting periods.

According to OASAS officials, they use a risk assessment process and consider other factors to prioritize which providers to review. Also, officials acknowledge that, due to resource limitations, there can be significant multi-year gaps between fiscal reviews.

Recommendations

1. Recover from identified providers the $2,220,807 in depreciation expenses claimed that are not allowable.

2. Make sure the $454,238 in non-funded depreciation expenses were/are not used to increase provider budgets.

3. Establish effective monitoring controls to ensure provider claims do not include depreciation expenses. The controls should include (but not be limited to):

    - The use of enhanced data analytics, as described in this report, to identify depreciation expenses that providers inappropriately claim for reimbursement; and
    - Incorporation of specific criteria in the fiscal review process stating that depreciation expenses are not allowable, and specific audit steps in the Fiscal Review Instrument to identify and disallow claimed depreciation expenses.

Audit Scope and Methodology

Our audit sought to determine whether OASAS is effectively monitoring Drug and Alcohol Treatment program contracts to ensure provider claims do not include State reimbursement for depreciation expenses for the period January 1, 2010 through June 30, 2014.

To accomplish our objective, we reviewed the New York State Consolidated Fiscal Reporting and Claiming Manual and the OASAS Administrative and Fiscal Guidelines for OASAS-Funded Providers to gain an understanding of the appropriate reporting and claiming of depreciation expenses, and assessed OASAS' related internal controls. We also interviewed OASAS officials and staff to obtain an understanding of their policies and procedures. We also analyzed CFR data to identify providers that were claiming depreciation and to determine whether those providers' programs were getting funding from OASAS. We selected the 25 CFRs with the highest depreciation charges and compared key fields in our data with the physical CFRs to ensure data accuracy. We reviewed the timing of fiscal reviews of service providers where we found providers reported depreciation as a program expense on their CFRs and reviewed in detail all fiscal reviews where OASAS indicated it identified inappropriate depreciation charges.

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 according 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

We provided a draft copy of this report to OASAS officials for their review and formal comment. We considered their comments in preparing this final report and have attached them in their entirety to it. In their response, OASAS officials indicated certain actions they have taken and will be taking to address our recommendations.

Within 90 days after final release of this report, as required by Section 170 of the Executive Law, the Commissioner of OASAS 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.

Contributors to This Report

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Vision

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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 | Office of Alcoholism and Substance Abuse Services

ANDREW M. CUOMO
Governor

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

March 31, 2016

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

Report 2015-S-84

Dear Mr. Buyce:

The NYS Office of Alcoholism and Substance Abuse Services (OASAS) is in receipt of the Office of the State Comptroller's (OSC) draft report entitled "Drug and Alcohol Treatment Program: Provider Claiming of Depreciation Expenses." The following comments and information are offered for your consideration in the formulation of the OSC final report on this matter.

OASAS concurs with your analysis that depreciation expense has been inappropriately claimed by some funded providers resulting in the payment of excess net deficit funding. To that end we have already implemented a procedure to ensure that this does not repeat in the future.

The OSC findings were derived from the analysis of 106 identified providers with a total claimed submission of depreciation expense in the amount of $2,675,045. Of that amount, the OSC noted that $2,220,807 was factored in by OASAS into the determination of provider's net deficit funding. The OSC further noted $454,238 that was correctly disallowed by OASAS and not included in any net deficit funding calculations and made a recommendation that OASAS not use any of those monies to increase provider's budgets. OASAS has no intention of paying those dollars to any of the affected providers in any future period.

It is relevant to note that of the 106 identified providers, 19 comprised approximately 80% of the total dollars involved and furthermore that 6 of those 19 providers comprised more than half the total dollars. A number of these providers have complex corporate structures and also operate multiple programs, some of which are licensed, funded and overseen by other state agencies, which makes identifying certain fiscal issues more difficult to discern. Others, who have been identified as having substantive programmatic and/or fiscal issues, have become subject to enhanced OASAS oversight by various agency divisions. While this does not lessen the impact of the inappropriately claimed and paid dollars, it does place the findings into a more accurate perspective insofar as how it relates to the positive ongoing work at OASAS to hold its more than 370 funded providers, who operate in excess of 1,000 OASAS programs, accountable. It is OASAS' strong belief that given our enhanced oversight we would have independently identified the instances of non-allowable claimed depreciation and effected appropriate recoveries.

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OASAS takes exception to the OSC's assertion that "OASAS is not effectively monitoring Drug and Alcohol treatment program contracts to ensure provider claims do not include State reimbursement for depreciation expenses." Through ongoing efforts, our Fiscal Audit and Review Unit (FARU) has identified and recovered over $1 million in inappropriately claimed depreciation expense beginning with the period starting January 2010, and of that amount $697,503 corresponds to providers who were covered under the OSC audit period. The positive results of OASAS' ongoing internal efforts are revealed in the OSC findings for the 2013-2014 audited period where the determined depreciation expense was $196,917 or roughly 7% of the total monetary finding.

OASAS has embarked on a two prong approach to resolve the issue of inappropriately claimed depreciation expense starting first with a plan to identify issues in future claims.

1) OASAS has formulated a desk audit review process that will employ analytics to evaluate all future Consolidated Fiscal Reports (CFR) submitted by funded providers to determine whether certain expenses, including depreciation expense, were claimed. In cases where such claims are evident, OASAS will interact directly with providers to obtain a corrected CFR claiming document. OASAS will not process those originally received CFRs and will withhold future funding advances until such time as the provider corrects their claim.

2) OASAS is also currently devising a desk review process where we will analyze all identified claims containing depreciation expense as noted in the OSC audit, and take measures to recover every dollar deemed to be inappropriately claimed and paid.

Thank you for the opportunity to respond to the draft report.

Very truly yours,

Steven J. Shrager
Director, Office of Audit Services

cc: Robert Kent
David Sawicki
Trisha Schell-Guy