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September 5, 2018

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

Re: Drug and Alcohol Treatment Program:
Provider Claiming of Depreciation
Expenses
Report 2018-F-11

Dear Commissioner González-Sánchez:

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, we have followed up on the actions taken by officials of the Office of Alcoholism and Substance Abuse Services to implement the recommendations contained in our audit report, *Drug and Alcohol Treatment Program: Provider Claiming of Depreciation Expenses* (Report 2015-S-84) issued June 8, 2016.

Background, Scope, and Objective

The New York State Office of Alcoholism and Substance Abuse Services (OASAS) oversees one of the nation's largest addiction services systems. Its mission is to improve the lives of all New Yorkers by leading a comprehensive premier system of addiction services for prevention, treatment, and recovery. 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 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.

Our initial audit report found that OASAS was not effectively monitoring Drug and Alcohol Treatment program contracts to ensure provider claims did not include State reimbursement for depreciation expenses. We found providers inappropriately claimed $2,675,045 in depreciation expenses between January 1, 2010 and June 30, 2014, of which $2,220,807 was funded by OASAS, and $454,238 could potentially have been used for inappropriate increases to providers' future program budgets. We also identified opportunities for improved monitoring controls to ensure provider claims do not include depreciation expenses.

The objective of our follow-up was to assess the extent of implementation, as of July 25, 2018, of the three recommendations included in our initial report.

Summary Conclusions and Status of Audit Recommendations

We found that OASAS has implemented all three recommendations contained in our original audit report.

Follow-Up Observations

Recommendation 1

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

Status - Implemented

Agency Action - Following our initial audit, OASAS management conducted an in-depth analysis of all depreciation expenses that providers claimed between January 1, 2010 and June 30, 2014. In addition to the $2,675,045 of unallowable and non-funded depreciation expenses identified during the initial audit, OASAS' analysis found $25,880 in unallowable depreciation expenses. As of July 25, 2018, OASAS has recouped $1,602,520 of the $2,700,925 ($2,675,045 + $25,880). Based on their analysis, OASAS management determined that recovery was not required from providers for $1,086,223 of the claimed depreciation expenses. We judgmentally selected six providers that accounted for $618,045 of the $1,086,223, and management was able to provide sufficient evidence to substantiate that these six providers' depreciation claims should not be recovered. For example, one provider had claimed $184,032 in depreciation, but because OASAS' reimbursement is limited to a maximum budgeted amount, the $184,032 was applied to other legitimate program expenses that had initially not been reimbursed. Management indicated the remaining $12,182 of depreciation expenses that was neither recouped nor deemed recoverable will be reviewed as resources permit.

Recommendation 2

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

Status - Implemented

Agency Action - OASAS officials are examining these funds as part of the review noted earlier in this report, and found that the $454,238 in non-funded depreciation expenses was not used to increase provider budgets. OASAS has also created a new CFR review process to identify depreciation and other non-allowable expenses that could potentially increase providers' budgets, should an amended CFR be resubmitted in the future.

Recommendation 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.*

Status - Implemented

Agency Action - OASAS has established effective monitoring controls to ensure provider claims do not include depreciation expenses. Specifically, OASAS has created a new CFR review process to identify depreciation and other non-allowable expenses that providers inappropriately claim for reimbursement. Management has taken adequate steps to ensure responsible employees are aware of the new process. The CFR Review Unit extracts and plots entries from every CFR received onto a spreadsheet, and, based on our review, the spreadsheet appears to adequately track providers who inappropriately attempt to claim depreciation expenses. The CFR Review Unit also compares the providers' independently audited financial statements and their entries on the CFRs to ensure that all revenue and expenses are accurately reported. This analysis provides reasonable assurance OASAS will identify depreciation expenses that providers inappropriately claim for reimbursement. Going forward, OASAS intends to develop and use more enhanced data analytics.

In addition, OASAS has updated the language in the Fiscal Review Instrument to incorporate specific criteria in the fiscal review process that states that depreciation expenses are not allowable, and includes specific audit steps to identify and disallow claimed depreciation expenses.

Major contributors to this report were Ray Barnes, Vicki Wilkins, Anthony Calabrese, and Brian O'Connor.

We thank the management and staff of OASAS for the courtesies and cooperation extended to our auditors during this review.

Very truly yours,

Mark Ren
Audit Manager

cc: Steven J. Shrager, Office of Audit Services
Division of the Budget