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

Administration of the Contract With the Center for Urban Community Services

New York City Department of Health and Mental Hygiene

Report 2014-N-5 February 2016

Executive Summary

Purpose

We audited the New York City Department of Health and Mental Hygiene's (DOHMH) administration of a contract (#113 225 01) with the Center for Urban Community Services (CUCS) for the period July 1, 2010 through July 15, 2015. The audit included a review of costs claimed by CUCS and paid by DOHMH for the year ended June 30, 2013. Our objectives were to determine whether DOHMH provided sufficient oversight to ensure that CUCS rendered the prescribed services, and ensured that CUCS was reimbursed only for appropriate contract expenses.

Background

DOHMH contracts with not-for-profit providers for a range of health and social services, including supportive housing. Supportive housing is designed to help individuals and families use housing as a platform for health and recovery following a period of homelessness, hospitalization, or incarceration, or for youth aging out of foster care. According to DOHMH officials, during the two years ended June 30, 2015, DOHMH had 164 active contracts for supportive housing programs with corresponding payments totaling about $193 million. One of the largest such contracts DOHMH awarded was with CUCS. In 2010, DOHMH signed a three-year contract with CUCS valued at $27.7 million for a variety of mental health services. Subsequently, the contract was increased to $28.7 million for expanded program services. The New York State Office of Mental Health funds about 75 percent of this contract. CUCS receives additional funding from the New York City HIV and AIDS Services Administration and the Department of Homeless Services.

According to the contract, DOHMH reimburses CUCS on a monthly basis, in an amount equal to claimed program costs less any advance payments and not in excess of the total contract amount. DOHMH requires CUCS, as well as its other providers, to file a Quarterly Fiscal Report (QFR). Per the contract, DOHMH bases payments to CUCS on information obtained from the QFRs.

Key Findings

- DOHMH did not effectively administer certain financial aspects of the contract. As a result, CUCS overbilled DOHMH by about $1.06 million during the year ended June 30, 2013. The overbillings include $1.05 million of improperly claimed personal service expenses and $11,889 of unsupported or inappropriate non-personal service costs.
- The improper personal service charges included about $829,000 that was based on unsupported average annual salaries and related fringe benefits instead of actual employee compensation costs incurred by CUCS. For example, a QFR listed $45,774 as the average annual salary for eight social workers, whose average annual salaries were actually $36,806. Thus, on an annual basis, CUCS overbilled DOHMH $8,968 ($45,774 - $36,806) for each of the social workers.
- Reviews conducted by DOHMH's Claims Verification Unit were inadequate and failed to detect the deficiencies in the QFRs submitted by CUCS for program reimbursements.

Key Recommendations

- Follow up on the unsupported and/or inappropriate expenses (totaling about $1.06 million) as detailed in this report and recover overpayments, as appropriate.

- Work with CUCS officials to develop a financial reporting methodology that uses actual program expenses for QFR preparation and reimbursement purposes.
- Require CUCS to maintain detailed records documenting actual staff work effort between CUCS programs. Further, require CUCS to use actual staff work effort to allocate staff compensation among programs.
- Enhance financial review/audit procedures to ensure DOHMH does not reimburse CUCS for ineligible costs.

Agency Response

In their responses to our draft audit report, DOHMH and CUCS disagreed with our findings and recommendations regarding CUCS's QFR billings. DOHMH officials also disagreed with our finding regarding their fiscal monitoring of contractor operations. Given the broader magnitude of DOHMH's supportive housing programs (costing nearly $193 million for the two years ended June 30, 2015) and the extent of this audit's findings, we are particularly disappointed and concerned with DOHMH's rejection of our audit recommendations.

Also, with their response, CUCS officials provided an addendum, which includes examples of methodologies they contend should have been used to determine the amounts of costs eligible for reimbursement and QFR reporting. However, CUCS did not use those methodologies to determine the amounts of costs to report on their QFRs, and consequently, the addendum's analysis does not correspond with or support the amounts of costs claimed by CUCS. Further, CUCS's revised methodologies rely extensively on annualized pro-rations of costs as opposed to the costs CUCS actually incurred.

Other Related Audits/Reports of Interest

New York City Administration for Children's Services: Administration of Non-Competitive and Limited-Competition Contracts (2013-N-02)
Office of Mental Health: Sky Light Center Inc. - Supported Housing Program (2012-S-37)

State of New York
Office of the State Comptroller

Division of State Government Accountability

February 16, 2016

Mary Travis Bassett, MD, MPH
Commissioner
New York City Department of Health and Mental Hygiene
125 Worth Street
New York, NY 10013

Dear Dr. Bassett:

The Office of the State Comptroller is committed to helping State agencies, public authorities, and local government agencies manage government resources efficiently and effectively. By so doing, it provides 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 New York City Department of Health and Mental Hygiene entitled *Administration of the Contract With the Center for Urban Community Services*. 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 III of the General Municipal 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

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Background

The New York City Department of Health and Mental Hygiene (DOHMH) is charged with protecting and promoting the health and mental well-being of all New Yorkers. DOHMH works to prevent and mitigate illnesses caused by environmental health hazards, responds to health complaints, and performs health-related inspections of various entities, such as restaurants and eateries. It also contracts with not-for-profit providers for a multitude of health and social services, including supportive housing. According to DOHMH officials, during the two years ended June 30, 2015, DOHMH had 164 active contracts for supportive housing programs with corresponding payments totaling about $193 million.

Supportive housing is designed to help individuals and families use housing as a platform for health and recovery following a period of homelessness, hospitalization, or incarceration or for youth aging out of foster care. Housing arrangements can range from permanent housing in apartments with standard tenant–landlord leases coupled with community-based support services designed to foster independent living (the “supported housing” model) to Congregate Treatment, a licensed program in which clients reside in a group-living residential setting that focuses on the provision of interventions needed to address the functional and behavioral deficits that prevent them from accessing general housing.

One of the largest such contracts DOHMH has awarded for supportive housing is with the Center for Urban Community Services (CUCS). CUCS is a not-for-profit organization that provides housing and service programs for homeless and low-income people, particularly those suffering from serious mental illness, HIV/AIDS, and other disabling conditions. CUCS sponsors 19 service sites throughout Manhattan, Brooklyn, and the Bronx that provide a range of programs and services, including transitional living communities; an outreach program; a job training and employment program; a training, consultation, and housing information services department; a permanent supportive housing program; and psychiatric outreach to the homeless.

In 2010, DOHMH signed a three-year contract valued at $27.7 million with CUCS for a variety of mental health services. The contract was increased to $28.7 million due to expanded program offerings. The New York State Office of Mental Health (OMH) funds about 75 percent of this contract. CUCS receives additional funding from the New York City HIV and AIDS Services Administration and the Department of Homeless Services.

The CUCS programs funded under the DOHMH contract are detailed in the following table:

Program Site	Program Name	Funding Amount
Prince George Hotel	Supported Single Room Occupancy	$4,755,749
Times Square Hotel	Supported Single Room Occupancy	5,697,333
Uptown SROs	Supported Single Room Occupancy	4,909,538
350 Lafayette TLC	On-Site Rehabilitation	5,072,721
Advocacy and Training	Advocacy/Support Services	3,719,941
Assisted Competitive Employment	Assisted Competitive Employment	2,052,911
Academy for Justice Informed Training	Advocacy/Support Services	405,715
Kelly Transitional Community Living	On-Site Rehabilitation	1,628,276
Re-entry Coordination Services Expansion	Advocacy/Support Services	470,000
Total		**$28,712,184**

Three of CUCS's larger programs funded through this contract are the Times Square Hotel, 350 Lafayette Street, and the Prince George Hotel. The Times Square Hotel and the Prince George Hotel (pictured below) are permanent, supported, single-occupancy residences for individuals with severe and persistent mental illness and histories of homelessness. The 350 Lafayette Street program is a transitional living community for mentally ill homeless women.

Times Square Hotel

Prince George Hotel

DOHMH requires CUCS, as well as its other supportive housing providers, to file a Quarterly Fiscal Report (QFR). The QFR requires providers to record detailed program costs by expense type, such as Personal Service, Other Than Personal Service, Equipment, Agency Administration, etc. According to the contract, during the first quarter of the contract year, DOHMH may make three advanced payments to CUCS, each not to exceed one-twelfth of the total contract amount, and makes monthly payments thereafter. At the end of each contract year, DOHMH uses the total amount reported on the four QFRs to determine the final amount due CUCS for the previous contract year. According to DOHMH officials, CUCS may request a budget modification at the end of each contract year that aligns the budget with the cumulative spending for the year, as indicated by the four QFRs.

Audit Findings and Recommendations

We concluded that DOHMH did not effectively administer certain financial aspects of the contract. As a result, CUCS overbilled DOHMH by $1.06 million for the year ended June 30, 2013. The overbills included $1.05 million of improperly claimed personal service expenses and $11,889 of unsupported or ineligible non-personal service costs. We attributed the excessive claim payments to DOHMH's weak monitoring of CUCS's questionable financial reporting processes. In addition, we found that CUCS provided supportive housing services to eligible clients as required by the contract.

Fiscal Matters

Personal Service Costs

CUCS improperly claimed about $1.05 million in personal service costs for the year ended June 30, 2013. This included improper claims of about $829,000 for direct care personal service and $224,000 for indirect care personal service.

Direct Care

Personal service costs include employee salaries, bonuses, and fringe benefits. The DOHMH contract provides for a budgeted number of full-time equivalent (FTE) staff positions assigned to each of the contracted programs. A total of 203 CUCS staff, including 182 direct care program staff and 21 indirect care (administrative and support) positions, were assigned to the contract. The 182 direct care staff were assigned to one or more of the contract's nine programs, as listed on page 6 of this report. For example, the Times Square Hotel was budgeted for 7.42 FTEs for the position of case manager.

All persons employed by the contractor who provide contract-related services are required to document their daily time and attendance. Such documentation helps ensure the employees charged to the contract have worked the hours they are paid for. Because CUCS provides a range of services funded by different contracting sources (federal, State, and City), it is imperative for cost reimbursement purposes that all CUCS employees serving multiple programs, contracts, or facilities document the actual amount of time they work on each activity. This requirement is prescribed in OMH's Consolidated Fiscal Reporting and Claiming Manual (Manual), which provides guidance to providers funded by OMH allocations.

In addition, DOHMH has its own Fiscal Manual for Human Services (Fiscal Manual), to be used as a compliance guide for its contractors. The Fiscal Manual requires providers to prepare a Cost Allocation Plan and submit it to DOHMH for approval. The plan should describe the method of allocating costs that are attributable to two or more programs or funding sources. It further stipulates that the allocation method should reflect the actual allocable shares of the given costs. CUCS officials told us that the approved budget serves as their Cost Allocation Plan.

Although CUCS employees record their total hours worked on their timesheets, they do not maintain records that allocate those hours among the various programs and sites (funded by multiple sources) on which they spend their time. In fact, CUCS officials did not have any records that could support their actual salary allocations reported on their QFRs, other than their approved budget (which did not reflect staff's actual work effort).

Under these circumstances, we accepted the budgeted and approved CUCS FTEs dedicated to the contract and compared the corresponding employee salaries reported on the QFR for the year ended June 30, 2013 to CUCS's payroll registers for that period. We found that the actual average annual salaries for the employees charged to the contract were consistently lower than the salaries used by CUCS to claim personal service costs on its QFRs. For example, a QFR listed $45,774 as the average annual salary for eight Times Square Hotel social workers, whose actual average annual salaries were $36,806. Thus, on an annual basis, CUCS overbilled DOHMH $8,968 ($45,774 - $36,806) for each of the social workers.

In total, we determined that CUCS overbilled DOHMH $829,000 for the period reviewed because it claimed unsupported average annual salaries and the related fringe benefits (instead of the actual personal service costs) on its QFRs. We recommend DOHMH recover this overpayment and work with CUCS to develop a more accurate billing methodology for direct care personal services.

Indirect Care

The work performed by certain administrative and support staff benefits multiple (if not all) CUCS programs. The salaries and fringe benefits of these employees are to be allocated among CUCS's various programs using the methodologies prescribed by the OMH and DOHMH Manuals (including, for example, the ratio value method for staffing). Indirect care costs should be reported in the "Agency Administration" section of the QFRs.

However, we found that portions of the salaries of seven CUCS administrative employees (including the Associate Executive Director) were charged to the contract's direct care personal service category and were also allocated in their entirety among all CUCS programs as administrative costs. In certain instances, the same costs were billed as both direct and indirect care costs. For example, the entire $203,000 annual salary paid to CUCS's Associate Executive Director (an administrative expense) was properly charged to Agency Administration and prorated among CUCS's various programs. However, $85,000 (about 40 percent) of his salary was also charged (improperly) as a direct care personal service cost. In total, CUCS overbilled DOHMH by $224,000 in fiscal year 2013 as a result of this practice.

Non-Personal Service Costs

To be eligible for reimbursement, non-personal service (NPS) costs charged to a funded program must relate to the program's mission and be properly documented. We identified $11,889 in NPS costs that were ineligible for reimbursement and another $32,000 in questionable costs.

Ineligible Costs

Several NPS expenses (totaling $11,889) CUCS claimed for reimbursement did not meet the criteria for reimbursement. Specifically, CUCS improperly billed DOHMH:

- $6,560 for the hiring expenses of an employee whose salary was not charged to the funded programs;
- $3,425 to extend the work visa of another employee whose salary was not charged to the funded programs; and
- $1,904 for out-of-town lodging expenses without supporting invoices.

Questionable Charges for Rent Subsidies

Clients in CUCS's housing programs are responsible for paying up to 30 percent of their income toward their rent. CUCS is responsible for the remaining rent, for which it claims reimbursement from DOHMH. The buildings used for CUCS's housing programs are managed by the landlords of the rented properties or their contracted property managers. The landlords or property managers submit monthly invoices to CUCS stating the total rent by client, the portion of the rent paid by the client, and the balance due from CUCS.

However, the monthly rent invoices submitted by one property manager indicated that CUCS was billed for more than its contracted share. Specifically, many of the invoices did not deduct the client's share of rent prior to determining the amount owed by CUCS. According to this property manager, many of the clients residing at his property did not pay their portion of the rent, and consequently, he billed the clients' unpaid portion to CUCS. CUCS paid the increased amount without questioning or verifying the property manager's assertion. For example, the rent for one client was $264 per month, which was covered in full by 30 percent of the client's income. Thus, CUCS should not have had any rental obligations for this client. However, CUCS was billed a total of $1,325 for the five months of March through July 2012 where the property manager listed the client as "in arrears." The potential overpayments resulting from these questionable billings totaled about $32,000. Since the agreements between CUCS and the property managers are silent on this issue, it is imperative that these circumstances be investigated by CUCS before payment, and that CUCS develop a policy to address this issue.

Program Matters

As noted previously, CUCS provides housing to eligible clients with varying levels of independence and needs for support services (including medical care and counseling). During our audit, we selected three large CUCS programs (Times Square Hotel, 350 Lafayette Street, and Prince George Hotel) to verify that CUCS provided the housing and support services prescribed by the contract. We visited each of these facilities to verify that a sample of the budgeted staff (including social workers and administrative staff) were present and that a sample of the program beds/apartments were occupied by eligible clients. In addition, we found that CUCS had established a subsidiary entity, Janian, to provide medical services (including psychiatric, nursing, and primary care) to clients.

Based on our review, we determined that the sampled budgeted staff were present, and the sampled beds/apartments were occupied by eligible clients. In addition, based on our physical observations and reviews of client and employee personnel files, we concluded that CUCS provided the required contract services.

Contract Oversight

As the contract awarding agency, DOHMH has the fiduciary responsibility to ensure that CUCS is providing all contracted services in compliance with contract terms, and is requesting reimbursement only for supported, program-appropriate expenses. According to DOHMH officials, staff in their Office of Program Review and Evaluation (OPRE) make periodic visits to providers to verify that contracted services are being provided. OPRE assigns each provider a program score with associated recommendations and maintains documentation of its reviews.

DOHMH's Claims Verification Unit (CVU) periodically reviews samples of provider expenses for support and program eligibility. The CVU documents its periodic reviews, including the information it requests from the providers. However, based on our findings, as detailed previously in this report, we concluded that DOHMH's fiscal reviews of CUCS were not sufficient. For example, DOHMH was not aware of the increased rent subsidy costs paid by CUCS for one of its supported housing programs. Moreover, we attribute the aforementioned overpayment of $1.06 million, at least in part, to DOHMH's weak oversight of CUCS's financial reporting processes.

Recommendations

1. Follow up on the unsupported and/or inappropriate expenses (totaling about $1.06 million) as detailed in this report and recover overpayments, as appropriate.

2. Work with CUCS officials to develop a financial reporting methodology that uses actual program expenses for QFR preparation and reimbursement purposes.

3. Require CUCS to maintain detailed records documenting actual staff work effort between CUCS programs. Further, require CUCS to use actual staff work effort to allocate staff compensation among programs.

4. Periodically review the accuracy of monthly billings for rent subsidy statements received from landlords or their property managers. Do not reimburse CUCS for the portion of rents that are the liability of clients without a sufficient verification that clients did not pay their portions of the rents due, and work with CUCS to develop a policy to address this issue.

5. Enhance financial review/audit procedures to ensure DOHMH does not reimburse CUCS for ineligible costs. In particular, the procedures should ensure that compensation paid to administrative staff is not recorded as direct care charges and that NPS costs are supported or eligible for reimbursement.

Audit Scope and Methodology

We audited DOHMH's administration of a contract (#113 225 01) with CUCS for the period July 1, 2010 through July 15, 2015. The audit included a review of the costs claimed by CUCS and paid by DOHMH for the year ended June 30, 2013. Our objectives were to determine whether DOHMH provided sufficient oversight to ensure that CUCS rendered the prescribed services, and ensured that CUCS was reimbursed only for appropriate contract expenses.

To accomplish our objectives, we interviewed DOHMH, CUCS, and OMH officials, as well as DOHMH's independent certified public accountant, which audits DOHMH contractors, and the property manager for one of the contract programs. In addition, we reviewed the DOHMH contract (#113 225 01), CUCS's modified budgets, monthly summary claims, and QFRs pertaining to fiscal year 2013. We also reviewed OMH contractor reimbursement guidelines, DOHMH and CUCS policies and procedures, and pertinent CUCS financial and program-related records, including the general ledger, invoices, and selected payroll and personnel files. We selected a judgmental sample of claimed expenses to determine whether each was supported and program-appropriate.

We also conducted employee floor checks for three of the larger CUCS programs, and selected a sample of client apartments for physical inspection and client records for review to ensure that employees charged to the program existed and were present at their assigned locations, and that leased apartments were occupied by eligible clients.

We conducted our performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence we obtained during the audit provides a reasonable basis for our findings and conclusions based on our audit objectives.

As is our practice, we notified DOHMH officials at the outset of our audit that we would be requesting a representation letter in which agency management provides assurances, to the best of their knowledge, concerning the relevance, accuracy, and competence of the evidence provided to the auditors during the course of the audit. In the representation letter, agency officials assert that, to the best of their knowledge, all relevant financial and programmatic records and related data have been provided to the auditors, as well as an affirmation that they have complied with all laws, rules, and regulations applicable to its operations that would have a significant effect on the operating practices being audited or that any exceptions have been disclosed to the auditors. However, officials at the New York City Mayor's Office of Operations informed us at the closing conference that, as a matter of policy, mayoral agency officials do not provide representation letters in connection with our audits. As a result, we lack sufficient assurance from DOHMH officials that all relevant information was provided to us during the audit.

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

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 III of the General Municipal Law.

Reporting Requirements

We provided a draft copy of this report to DOHMH and CUCS officials for their review and comment. Their comments were considered in preparing this final report and are attached in their entirety to the end of the report.

In their responses, DOHMH and CUCS disagreed with our findings and recommendations regarding CUCS's QFR billings. DOHMH officials also disagreed with our finding regarding their fiscal monitoring of contractor operations. Given the broader magnitude of DOHMH's supportive housing programs (costing nearly $193 million for the two years ended June 30, 2015) and the extent of this audit's findings, we are particularly disappointed and concerned with DOHMH's rejection of our audit recommendations.

Also, with their response, CUCS officials provided an addendum, which includes examples of methodologies they contend should have been used to determine the amounts of costs eligible for reimbursement and QFR reporting. However, CUCS did not use those methodologies to determine the amounts of costs to report on their QFRs, and consequently, the addendum's analysis does not correspond with or support the amounts of costs claimed by CUCS. Further, CUCS's revised methodologies rely extensively on annualized pro-rations of costs as opposed to the costs CUCS actually incurred.

Our rejoinders to certain DOHMH and CUCS comments are included in the report's State Comptroller's Comments, which are embedded within the agencies' responses.

Within 90 days after final release of this report, we request that the Commissioner of the New York City Department of Health and Mental Hygiene report to the State Comptroller, advising what steps were taken to implement the recommendations contained in this report, and if the recommendations were not implemented, the reasons why.

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Agency Comments - NYC Department of Health and Mental Hygiene and Comptroller's Comments

NYC Health

NEW YORK CITY DEPARTMENT OF
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November 17, 2015

Frank Patone, CPA
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110 State Street, 11th Floor
Albany, NY 12236

Dear Mr. Patone:

The Department of Health and Mental Hygiene ("DOHMH" or "Department") reviewed the draft report on the DOHMH's Administration of the contract (#225) with Center for Urban Community Services (CUCS) and thanks the Office of the State Comptroller ("OSC" or "auditors") for the opportunity to respond. DOHMH is also attaching CUCS's response and addendum to the draft report and request that both responses from DOHMH and CUCS be published in their entirety with OSC's issuance and any publication of the final audit report.

Sara Packman, Assistant Commissioner of Audit Services, is the contact for the matters addressed in this report. If you require additional information she may be contacted at 347-396-6679 or via email at spackman@health.nyc.gov

Sincerely,

Oxiris Barbot, M.D.
First Deputy Commissioner

OB/mc

Attachment

cc: Sara Packman, Assistant Commissioner of Audit Services
Tony Hannigan, Executive Director, CUCS

RESPONSE TO THE NEW YORK STATE OFFICE OF THE STATE COMPTROLLER'S DIVISION OF STATE GOVERNMENT ACCOUNTABILITY ON THE DEPARTMENT OF HEALTH AND MENTAL HYGIENE'S ADMINISTRATION OF CONTRACT WITH THE CENTER FOR URBAN COMMUNITY SERVICES REPORT NUMBER 2014-N-5

The Department of Health and Mental Hygiene ("DOHMH" or "Department") reviewed the draft report on the DOHMH's Administration of the contract (#225) with the Center for Urban Community Services ("CUCS") and thanks the Office of the State Comptroller ("OSC" or "auditors") for the opportunity to respond. The objective of the audit was to determine whether DOHMH (i) provided sufficient oversight to ensure that CUCS rendered the prescribed services, and (ii) ensure that CUCS was reimbursed only for appropriate contract expenses. The scope of the audit was fiscal year 2013, and was later extended to include fiscal year 2014.

We are pleased with the auditors' conclusion that "CUCS provided supportive housing services as required by the contract". The auditors visited the three largest facilities, Time Square Hotel, 350 Lafayette Street, and Prince George Hotel and verified that the sample of budgeted staff (including social workers and administrative staff) were present at each location and that the " …program beds/apartments [sampled] were occupied by eligible clients". The auditors also state that based on their "physical observations and reviews of client and employee personnel files, "CUCS provided the required contract services." As part of reviewing DOHMH's contract oversight, the auditors also met with DOHMH's Office of Program Review and Evaluation (OPRE) and received OPRE's programmatic audit protocol and reports. Hence, DOHMH provided sufficient oversight to ensure CUCS rendered contracted services

We disagree, however, with the auditors' conclusion that DOHMH did not effectively administer certain financial aspects of the contract. This assessment is based on the auditors' analysis of direct and indirect personal service costs charged to the contract and other than personal expenses (OTPS). The following sections detail our response to the (I) auditors' findings, (II) recommendations and (III) corrections of the auditors' statements.

Comptroller's Comment - We address a range of DOHMH and CUCS assertions which are incorrect and/or misleading in subsequent State Comptroller's Comments.

CUCS's response and addendum to OSC's draft report are submitted with DOHMH's response. We request that both DOHMH and CUCS responses be published with OSC's final audit report

(I) Auditors' Findings

Personal Service Costs

The auditors state that CUCS improperly claimed $829,000 for direct care personal services and $224,000 for indirect care personal services for fiscal year 2013.

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Direct Care

The auditors are of the opinion that "it is imperative for cost reimbursement purposes that all CUCS employees serving multiple programs, contracts, or facilities document the actual amount of time they work on each activity". The auditors make reference to the New York State Office of Mental Health's (OMH's) Consolidated Fiscal Reporting and Claiming Manual, Appendix J - Allocating Expenses for Shared Program/Site, which provides guidance when direct program costs serve more than one contract or one program. The guidance, however, pre-dates the advent of supportive housing to cover the complexity of allocating direct care costs to the Supportive Housing model. The guidance provides two basic allocation methods (1) actual hours worked or (2) time studies. Both methods are not practical for the reasons listed below.

Comptroller's Comment - The OMH Consolidated Fiscal Reporting and Claiming Manual (Manual) is the official guidance that providers, such as CUCS, must follow for cost reporting and reimbursement purposes. It is not simply the auditors' "opinion" that providers must comply with the Manual. Furthermore, DOHMH officials have no authority to disregard the Manual simply because they believe the Manual's prescribed allocation methods "are not practical." If DOHMH wanted to use alternative allocation methods (which differed from the Manual), it should have obtained formal OMH approval for such methods. However, DOHMH neither requested nor obtained such approval. In addition, we confirmed our interpretation and application of the Manual's pertinent provisions with OMH officials throughout the course of our audit fieldwork.

Contract #225 funds nine programs that include housing and service programs for homeless and low-income people with different conditions such as substance abuse, HIV positive, including people suffering from serious mental illness and other disabling conditions. These conditions are not mutually exclusive. Two of the nine programs, the Time Square and Prince George, receive funding from multiple funders such as New York City HIV and AIDS Services Administration and the Division of Homeless Services (funders). It is impracticable and discriminatory for the programs funded by contract #225 to differentiate the level of efforts (actual hours) of clinical staff that is required for different residents. It will also be challenging to subsequently request, at contract year end, additional compensation from funder(s) for residents, whose service needs exceeded their FTE allocation/distribution at the time of budget approval. Furthermore, CUCS has demonstrated to DOHMH and to the auditors that services provided to clients with serious mental illness (SMI) was greater than the amount claimed.

The auditors recognized the challenges associated with tracking actual hours of clinical staff (social workers, case managers etc.), who provided services to supportive housing residents with multiple conditions. As such, the auditors developed and presented four (4) cost allocation analyses for CUCS and DOHMH's review and comments. DOHMH reviewed the auditors' spreadsheet analyses and calculations and provided written responses to three earlier analyses, the results of which and DOHMH's responses were not included in the draft report.

Comptroller's Comment - We acknowledge that DOHMH officials provided written responses to our cost allocation analysis during our fieldwork, and we reviewed and considered those responses when preparing our draft audit report. However, the fact remains that CUCS officials were unable to support certain contract-related personal service charges claimed on CUCS's

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QFRs. Further, as noted previously, CUCS used an unauthorized methodology to allocate costs. We maintain that our calculations of allowable and unallowable costs, as detailed in our report, are correct.

In the fourth analysis, the auditors calculated an average annual salary which was lower than the actual salary CUCS claimed to DOHMH. Using the lower average salary, the auditors disallowed $829,000 for the period reviewed. We reviewed the auditors' fourth spreadsheet analysis and noted it required the following adjustments:

Comptroller's Comment - DOHMH's comment is inaccurate. In fact, the audit team used actual salaries to calculate direct care personal service costs. Again, the amounts of salary costs claimed by CUCS on its QFRs could not be supported.

1) When calculating an average annual salary, the auditors should have divided total salary charged for a title by the actual full time equivalent employees (FTEs) rather than by the number of employees listed in the ADP payroll run. Additionally, the auditor should have excluded employees who were not claimed to the contract from the calculation.

2) For part time employees or employees who worked only part of the year on contract #225, the auditors should have calculated an actual FTE using 1,820 hours (CUCS calculates 52 weeks @ 35 hours/week) as required by Federal Office of Management and Budget (OMB) Circular A-11- Preparation, Execution and Submission of Budget.

3) Further, calculating an annual average for a group of employees, such as the Quality Assurance team, with a wide range of salary due to different positions and responsibilities may be misleading and result in incorrect average.

Comptroller's Comment - DOHMH's response is puzzling. On balance, we applied ostensibly the same methodology CUCS officials told us they used to calculate direct care personal service charges to the contract. However, we used an average of the **actual** salaries paid to the employees charged to the funded programs – as opposed to an unsupported "average annual salary." As detailed on page 9 of the report, for example, the use of average annual salaries resulted in excessive charges of $8,968 for each of eight employees at Times Square Hotel. Further, we did not use the actual average salaries to calculate FTEs. Rather, we accepted the FTEs approved by DOHMH for each employee title and multiplied them by the applicable average **actual** salaries to determine the amount of personal service charges to allow and disallow.

In addition, CUCS's addendum provides a revision to our calculations, in which officials assert that program charges would be closer (but not equal) to the charges reported on the QFRs. Thus, CUCS officials ostensibly acknowledge that the amounts of costs claimed on their QFR submissions were incorrect. Also, as noted previously, CUCS officials could not provide adequate supporting documentation for certain costs reported on CUCS's QFRs.

3

In the October 13, 2015 response to the auditors, CUCS stated that the auditors should have modified their calculation to incorporate the above changes and compare the adjusted results to the actual direct cost CUCS had claimed. Had the auditors included the above adjustments, their calculated annual average salary would not have been significantly different than the actual claimed by CUCS. Detail examples of the above adjustments to OSC's FTE calculation are provided in the CUCS's addendum to the draft audit report.

Comptroller's Comment - We do not dispute that 1,820 hours of work annually corresponded to 1.0 FTE employee for CUCS. However, certain employees were not employed by CUCS for a full year and/or did not actually work (and get paid for) 1,820 hours in a year. Consequently, QFR costs should not be based on projections of a full year of work for all budgeted employees. Moreover, as CUCS officials acknowledge, these calculations do not support the amounts reported on CUCS's QFRs. The fact remains that, throughout the course of the entire audit, CUCS officials could not provide sufficient evidence and support for the amounts they reported on their QFRs.

Also, see prior Comptroller's Comment.

Personal Service Costs – Indirect Care

The auditors disallowed $224,000 in fiscal year 2013 for seven administrative employees (including the Associate Executive Director) that were charged to the contract's direct care personal service category. NYS Office of Mental Health (CBR Manual, Appendices I and R, and Section 12.4 –Personal Services) allows Program administration costs which are directly attributable to a specific program/site (i.e., personal services and fringe benefits of Billing Personnel, Program Director, Program Coordinator, etc.) to be included on the appropriate line as direct expense. Therefore, CUCS is allowed to claim a portion of salaries of "administrative" type employees as direct care cost providing that these employees provided services directly attributable to the DOHMH programs.

DOHMH's Audit Services obtained the tasks of each of the seven employees and noted that their work was directly attributable to the specific programs listed in the contract and thus, a portion of their salary and fringe benefits were billed to DOHMH in accordance with New York State Office of Mental Health's Consolidated Fiscal Reporting and Claiming Manual, Appendix I and R. The remaining portion of these seven employees' salaries and fringe benefits were claimed as part of administrative expense. The actual administration rate claimed to DOHMH during the year was also lower than the federally approved indirect cost rate.

Comptroller's Comment - We acknowledge that CUCS was allowed to claim a portion of salaries of administrative employees as direct care costs, if such employees actually provided direct care services to the DOHMH program. However, DOHMH failed to note that the portion of administrative salaries charged as direct care expenses should have been deducted from the total indirect cost pool before allocating those costs among all applicable programs. Because the direct care portion was not deducted, certain costs were claimed (incorrectly) as both direct and indirect care costs, as detailed in the report. Further, neither DOHMH nor CUCS officials could demonstrate precisely what salaries were included in Agency Administration (indirect care).

4

Non-Personal Service Costs

The auditors questioned $32,000 of tenants' rent "in arrears" since the agreements between CUCS and their property managers are silent on whether payment for tenants' rent "in arrears" constitute as rent subsidies. As was explained during the audit, the primary goal of Supportive Housing is to maintain a stable housing environment. Prior to evicting any tenant, DOHMH expects the Supportive Housing providers to attempt to assist the tenant in maintaining housing, including paying rent in arrears when a tenant's deteriorating mental health status results in loss of employment. Thus, rent "in arrears" is a good example of a rent subsidy and is one of the most impactful aspects of rent subsidy for the consumer with severe mental illness.

Comptroller's Comment - As noted in the report, we did not disallow the rental costs (totaling about $32,000) in question. Nevertheless, we questioned the propriety of reimbursing rental charges above and beyond the contracted amounts. It was unclear that such costs should have been claimed and reimbursed. Thus, we maintain that such charges should be thoroughly documented, reviewed, and approved prior to accepting them for reimbursement.

In respect to $11,889 of non-personal service costs disallowed by OSC, on June 15, 2015, DOHMH provided supporting documentations validating these expenses claimed by CUCS.

Comptroller's Comment - The information submitted to the auditors was insufficient to support the propriety of the noted payments.

Contract Oversight

The auditors concluded that "DOHMH's fiscal reviews of CUCS were not sufficient… [and they] attribute the…overpayment of $1.06 million, at least in part, to DOHMH's weak oversight of CUCS's financial reporting processes".

We disagree with the auditors' finding. DOHMH's contracts are subject to two layers of fiscal oversight. The first layer of fiscal oversight is the Claims Verification process, which is administered by the Claims Verification Unit (CVU) for each contract each fiscal year. The second layer of fiscal oversight consists of audits conducted by independent auditors (CPA firms) engaged by DOHMH and monitored by the Bureau of Audit Services, the internal audit function of DOHMH. Based on a risk based methodology, Audit Services selects each contract at least once during the three-year contract term. For Fiscal Year 2013, CUCS Contract # 225 was subject to both layers of fiscal oversight performed by CVU and a CPA audit.

Comptroller's Comment - We do not dispute that DOHMH's Claims Verification Unit (CVU) and an independent auditor reviewed CUCS-related billings. Nevertheless, upon audit, we found that CUCS did not maintain the required work effort (time distribution) records necessary to support personal service charges to the contract. Further, without assessing the underlying supporting documentation for charges, claims reviewers have limited ability to validate CUCS's claimed contract costs. Thus, we questioned the adequacy of the CVU's reviews.

For FY 2013, CUCS submitted Personal Services (PS) claims for reimbursement on their Quarterly Fiscal Reports (QFRs) in the amount of $5,027,499. As part of the Claims Verification process, CVU requested support (salary registers) for $455,269 (9% sample) of the PS claims. The requested documentation was for quarterly salaries claimed for individual staff – not for the annual salary. For the PS items sampled, CUCS submitted the ADP Payroll Registers which CVU reviewed. Based on the sample of PS items/claims selected for verification and CVU's review, there was no evidence of overbilling by CUCS.

CUCS's Quarterly Fiscal Reports (QFRs) for Contract#225 for FY'2013 included claims for Other Than Personal Services (OTPS) expenses in the amount of $2,349,693. As part of the Claims Verification process, CVU requested support documentation (i.e. copies of invoices, cancelled checks, leases, subcontracts etc.) for $805,464 (34% sample) of the OTPS claims submitted by CUCS. CVU identified $1,690 in unallowable OTPS costs and additional $9,187 in Agency Administration claims in excess of budget during the Claims Verification process, resulting in a total of $10,877 in disallowed expenses.

The above detail was discussed with the auditors during September 10, 2014 meeting when CVU explained to the auditors the process and methodology of the claims verification that were performed of CUCS's claims for the contract under OSC's audit. CVU also noted that due to the volume of the contracts and number of claims, CVU verifies a sample of claims rather than test 100% of the population.

We also shared the independent audit report for Contract#225 performed by the CPA. On November 12, 2014, the OSC auditors interviewed the CPA firm staffs who performed the audit. The DOHMH Audit Guide followed during the audit was also shared with the OSC auditors. The independent CPA audit report revealed a clean audit of Contract#225 with no questioned cost or internal control/compliance finding.

(II) Auditors' Recommendations

DOHMH disagrees with the recommendations as follow:

1. *Follow up on the unsupported and/or inappropriate expenses (totaling about $1.06 million) as detailed in this report and recover overpayments, as appropriate.*

DOHMH's Response: As stated in the above response to the findings, DOHMH disagrees with the $829,000 disallowance in direct care, $224,000 disallowance in indirect care and $43,889 of non-personal services costs identified during the audit.

Comptroller's Comment - Given the range and magnitude of the disallowances and related deficiencies that we detailed in our report, we are disappointed and concerned that DOHMH disagrees with this and our remaining recommendations pertaining to more than $1 million in ineligible costs claimed by CUCS.

2. *Work with CUCS officials to develop a financial reporting methodology that uses actual program expenses for QFR preparation and reimbursement purposes.*

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DOHMH's Response: We disagree with the auditors findings since CUCS uses actual program expenses for QFR preparation and reimbursement purposes.

3. *Require CUCS to maintain detailed records documenting actual staff work effort between CUCS programs. Further, require CUCS to use actual staff work effort to allocate staff compensation among programs.*

DOHMH's Response: We disagree with this recommendation as it is not practical in Supportive Housing. With regard to allocation of actual staff work efforts, when OMH amends its reporting guidelines for integrated programs, we expect CUCS to develop a methodology and process that will comply with OMH's guidance. We will review the alignment of CUCS' new methodology with OMH guidance and claiming to DOHMH's contract.

4. *Periodically review the accuracy of monthly billing for rent subsidy statements received from the landlords or their property managers. Do not reimburse CUCS for the portion of rents that are the liability of clients without sufficient verification that clients did not pay their portions of the rents due, and work with CUCS to develop a policy to address this issue.*

DOHMH's Response: We disagree with this recommendation as stated in our response to the finding.

5. *Enhance financial review/audit procedures to ensure DOHMH does not reimburse CUCS for ineligible costs. In particular, the procedures should ensure that compensation paid to administrative staff is not recorded as direct care charges and that NPS costs are supported or eligible for reimbursement.*

DOHMH's Response: We disagree with the basis for the auditors' recommendation.

DOHMH always works toward enhancing the processes and procedures, including fiscal monitoring of the providers. To this end, we will review, monitor and audit CUCS' implementation of future OMH amended guidance with regard to direct and indirect cost allocation for integrated programs.

(III) Corrections of Misstatement on the Draft Report

DOHMH identified auditors' misstatements on the draft report as follow:

1) Per audit report "*at the time of our audit, DOHMH had 121 contracts for supportive housing valued at $227 million*". (page 1 and page 5)

   DOHMH Correction: Based on the Housing Programs Funding Summary report and in response to the auditors' request for verification sent on September 11, 2015, we informed the auditors that during FY'14 and FY'15 contract periods, DOHMH had 164 contracts that contained supportive housing programs for a total funding amount of $93 million and $100 million (rounded), respectively.

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Comptroller's Comment - We revised our report as appropriate to improve the technical accuracy of the matters presented. The revisions did not impact our findings, conclusions, or recommendations.

2) Per audit report "*reviews conducted by DOHMH's fiscal audit unit were inadequate and failed to detect the deficiencies in the QFRs*… (Page 1, Key Findings)… "*DOHMH's fiscal audit unit periodically reviews samples of provider expenses for support and program eligibility"* (Page 11, Contract Oversight).

   DOHMH Correction: The unit is called Claims Verification Unit (CVU), which verifies samples of claims at year-end.

Comptroller's Comment - We revised our report as appropriate to improve the technical accuracy of the matters presented. The revisions did not impact our findings, conclusions, or recommendations.

3) Per audit report, "*DOHMH makes advanced payments to CUCS not to exceed the total contract amount and makes monthly payments thereafter….According to DOHMH officials, CUCS often requests a budget modification at the end of the contract year*…" (Page 7, Background).

   DOHMH Correction: On August 19, 2014, DOHMH explained to the auditors that as per the contract boilerplate there are three (3) advanced payments made to the providers during the fiscal year, <u>not to exceed 1/12 of the contract</u>. Additionally, as per the contract boilerplate, the providers are allowed to request budget modifications at year end.

Comptroller's Comment - We revised our report as appropriate to improve the technical accuracy of the matters presented. The revisions did not impact our findings, conclusions, or recommendations.

4) Per audit report, the auditors "*found that all or portions of the salaries of seven CUCS administrative employees…were charged to the contract's direct care personal service category*…" (Page 9, Indirect Care)

   DOHMH Correction: For none of the seven (7) employees, "all" of the salaries were claimed to direct personal service category. A portion of the salary was claimed as direct expense as explained above under auditor's findings.

Comptroller's Comment - We revised our report as appropriate to improve the technical accuracy of the matters presented. The revisions did not impact our findings, conclusions, or recommendations.

5) Per the report, "*according to DOHMH officials, staff in their Office of Program Review and Evaluation (OPRE) make periodic visits to providers*…" (Page 11, Contract Oversight).

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DOHMH Correction: On August 20, 2014, the auditors also met with DOHMH Program Officer, Director, Program Specialist and Special Advisor, who explained that each programs under the contract are visited twice a year by the assigned Programs Oversight staff, in addition to OPRE's visits.

Agency Comments - Center for Urban Community Services and Comptroller's Comments

CUCS center for urban community services

Rebuilding lives together

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November 12, 2015

Michael Solomon, CPA
Audit Manager
Office of the State Comptroller
Division of State Government Accountability
123 William Street, 21st Floor
New York, New York 10038

Dear Mr. Solomon:

Thank you for sending us the Office of the State Comptroller's (OSC) draft report entitled "Administration of the Contract with the Center for Urban Community Services – New York City Department of Health and Mental Hygiene" (Report 2014-N-5). Attached are the Center for Urban Community Services' comments and addendum worksheet. The audit provided CUCS the opportunity to review and discuss the various areas of focus in your report.

Thank you also for allowing us to respond directly to the OSC's report. We trust our attached comments will be included in their entirety with the OSC's issuance and any publication of the final report.

Very truly yours,

Center for Urban Community Services

Anthony Hannigan
President and Chief Executive Officer

Attachments

Rebuilding Lives Sharing Knowledge Shaping Systems

Center for Urban Community Services Response to the NYS Office of the State Comptroller Report: Administration of the Contract with the Center for Urban Community Services and NYC Department of Health and Mental Hygiene

November 13, 2015

Although the Office of the State Comptroller (OSC) audit, which spanned 16 months, was of the NYC Department of Health and Mental Hygiene (DOHMH), the focus was on the Center for Urban Community Services' (CUCS) contract #225; thus, having dedicated considerable staff time and effort to the audit, CUCS appreciates the opportunity to review and respond to the OSC's findings. We also appreciate that the OSC specifically acknowledged that CUCS "provided supportive housing services as required by the contract" with DOHMH.

CUCS is widely recognized as a founder and leader in the delivery of supportive housing services, and we trust the numerous conversations we had with OSC staff laid a basis for understanding the contributions and advancements that supportive housing have made in the fields of homelessness and mental health services. Supportive housing integrates various formerly homeless special needs populations (psychiatrically disabled, HIV positive, substance addicted) with non-special needs, low-income individuals to help rebuild their lives in a stigma free and non-discriminatory environment.

As we near the close of the audit, CUCS respectfully offers several comments and suggestions to the OSC findings and recommendations that regard cost allocation methodologies that are not in sync with the delivery of behavioral health services in the current system and findings and recommendations that are based on mathematical "averages" instead of findings based on audits and reviews of actual line items.

Personal Service Costs

The OSC suggests that CUCS improperly claimed about $1.05 million in personal service costs for the year ended June 30, 2013. We provide the following information and contend that the evidence the OSC uses to support its finding is flawed.

Direct Care

The basis of this OSC recommendation is: "it is imperative for cost reimbursement purposes that all CUCS employees serving multiple programs, contracts, or facilities document the actual amount of time they work on each activity" in order to "allocate[e] costs that are attributable to two or more programs or funding sources." This recommendation is impractical and overlooks one of the most important elements of supportive housing: ensuring an integrated environment. CUCS social workers and case managers, for example, frequently do group work with individuals served by different funding sources: some who have a mental illness, some with HIV/AIDS, some with non-special needs, some with addiction issues, and some with a complex combination of two or more issues. Budgeting Skills and Coping Skills groups are two examples among many. In fact, CUCS reminds the OSC of the example given of the regional school funded by different townships as an alternative conceptual framework to understand supportive housing. The teacher cannot and does distinguish how much time is being spent with students by township, nor can social workers distinguish how much time is spent with each individual in a group setting. Similarly, each CUCS staff on the #225 contract in supportive housing works as a team member with other staff that are paid from different funding sources, and the client caseload belongs to the team, which delivers services that are being funded by several different funding sources. To be required to precisely report actual hours worked by staff with mentally ill individuals risks discriminatory and stigmatizing service delivery practices in a setting where multiple populations are on the caseload. Instead, CUCS fulfills and often exceeds its contractual obligations with its funders, including the DOHMH. Further, the requirement not to discriminate against the mentally ill is upheld in the United States Supreme Court ruling Olmstead v. L.C., U.S. 581 (1999), which has since contributed to a substantial expansion of integrated models of supportive housing.

Comptroller's Comment - The OMH Consolidated Fiscal Reporting and Claiming Manual (Manual) is the official guidance that providers, such as CUCS, must follow for cost reporting and reimbursement purposes. It is not simply the auditors' "opinion" that providers must comply with the Manual. Furthermore, DOHMH officials have no authority to disregard the Manual simply because they believe the Manual's prescribed allocation methods "are not practical." If DOHMH wanted to use alternative allocation methods (which differed from the Manual), it should have obtained formal OMH approval for such methods. However, DOHMH neither requested nor obtained such approval. In addition, we confirmed our interpretation and application of the Manual's pertinent provisions with OMH officials throughout the course of our audit fieldwork.

A cornerstone of the OSC report's finding rests on the NYS Office of Mental Health's (OMH) Consolidated Reporting and Claiming Manual, Appendix J-Allocating Expenses for Shared Program/Site, which states guidelines for entities having multiple funding sources at one location. These guidelines pre-date the advent of supportive housing and are not sufficient to cover the complexity of supportive housing, and both OMH and DOHMH acknowledge this.

While the above states a general problem with the "audit findings of personnel services costs", following are bullets to a series of very specific problems with the draft findings that we request the OSC to review:

- The OSC report infers that the allocation issue they identified is applicable to all nine programs funded under #225, but only two of those programs, the Times Square and Prince George, receive funding from multiple sources and serve multiple populations. The other programs may combine funding but only provide services to a single population, mentally ill individuals, and there would be no purpose to differentiate staff time and effort per population.

Comptroller's Comment - It is not solely the nature of the individuals served that determines the funding source to be charged, but the types of services provided by staff as well. Also, the fact remains that certain costs (administrative [or indirect care], at the very least) should be allocated among the various programs and locations, pursuant to the provisions of the Manual.

- With respect to the Times Square and Prince George, CUCS has already established that funding and reimbursement for services to individuals with mental illness were more than adequately supported when allocating costs based on the number of service units or based on resident interactions and actual service levels.

- For whatever reason, the OSC finding of an overpayment is not based on actual claims data but rather on "averaging", which yields skewed results. For example, The OSC in its audit findings and recommendations cites that the QFR listed eight social workers at the Times Square Hotel with an average annual salary of $45,774. However, the OSC in its calculation included claimed amounts of $5,928 and $4,899 as full time equivalent salaries. Including these two salaries as full time equivalent salaries yields the $36,806 average salary result reported by the OSC, thus implicating CUCS as claiming salaries different from those paid without reviewing the actual payments made to the full-time employees.

Comptroller's Comment - DOHMH's response is puzzling. On balance, we applied ostensibly the same methodology CUCS officials told us they used to calculate direct care personal service charges to the contract. However, we used an average of the **actual** salaries paid to the employees charged to the funded programs – as opposed to an unsupported "average annual salary." As detailed on page 9 of the report, for example, the use of average annual salaries resulted in excessive charges of $8,968 for each of eight employees at Times Square Hotel. Further, we did not use the actual average salaries to calculate FTEs. Rather, we accepted the FTEs approved by DOHMH for each employee title and multiplied them by the applicable average **actual** salaries to determine the amount of personal service charges to allow and disallow.

In addition, CUCS's addendum provides a revision to our calculations, in which officials assert that program charges would be closer (but not equal) to the charges reported on the QFRs. Thus, CUCS officials ostensibly acknowledge that the amounts of costs claimed on their QFR submissions were incorrect. Also, as noted previously, CUCS officials could not provide adequate supporting documentation for certain costs reported on CUCS's QFRs.

- CUCS reviewed the OSC calculations and using the same averaging methodology selected by the OSC, but incorporating more detail, the results show that the actual salaries paid by CUCS to employees under contract #255 are within $46,000 of the expected values. Further, the OSC calculations have the following specific issues (please also see the attached worksheets which provide detail and back-up documentation):

  1) Calculating average full-time equivalent salaries for job titles that include employees with a zero value and no charged ADP salaries (according to the CBR Manual, an

employee with a "number of hours paid" equal to zero cannot be counted as an FTE;

2) Calculating full-time equivalency for part-time and/or part year employees (i.e. employees who were paid for fewer than 1,820 hours;

3) Calculating average full-time equivalent salaries for job categories with widely varying salaries and job responsibilities.

Comptroller's Comment - See prior Comptroller's Comment.

- Had the OSC used the actual hourly rates paid to employees and then annualized that rate to full time equivalent salaries before calculating average salary, the OSC methodology would not actually yield significant variance from expected values.

Indirect Care

The OSC draft audit lists seven (7) positions it states were improperly charged as indirect care costs. However, CUCS based its claims regarding those seven employees on the claiming manual categories and applicable Position Title Code definitions, the actual job functions or duties of the staff at issue, and the work they performed on behalf of contract #255. A brief discussion of those factors follows:

Applicable Regulations and Standards

CBR-4, Personal Services, Section 12.3 states that Program Administration Position Title Codes 500 through 599 may be claimed under the Program/Site Staffing Category. Section 42 defines Agency Administration to exclude the staff functions at issue stating as follows:

> Agency administration costs do not include program/site specific costs or program administration costs. Program/site costs are costs directly associated with the provision of services and are included on the appropriate line of expense on Schedules CFR-1 (lines 16 through 63), DMH-1 (lines 6 through 11) and DMH- 2 (lines 5 through 10). Program administration costs are administrative costs which are directly attributable to a specific program/site (i.e., personal services and fringe benefits of Billing Personnel, Program Director, Program Coordinator, etc.).

Appendix I – Agency Administration, Section 42.0, Page 42.1. Later, Section 51 defines those administrative personal services costs in detail, identifying the applicable position/job titles and providing definitions. Accordingly, to the extent that work performed by the staff at issue was directly attributable to the specific programs, the CFR requires that they be billed as direct costs. CUCS complied with that directive as each of these individuals performed tasks that were directly attributable to the specific programs as listed below:

Comptroller's Comment - We acknowledge that CUCS was allowed to claim a portion of salaries of administrative employees as direct care costs, if such employees actually provided direct care services to the DOHMH program. However, DOHMH failed to note that the portion of administrative salaries charged as direct care expenses should have been deducted from the total indirect cost pool before allocating those costs among all applicable programs. Because the direct care portion was not deducted, certain costs were claimed (incorrectly) as both direct and indirect care costs. Further, neither DOHMH nor CUCS officials could demonstrate precisely what salaries were included in Agency Administration (indirect care).

Program or Site Director – Position Title Code 501
CUCS's Associate Executive Director

OSC questions $85,588 of direct salary claimed for CUCS' Associate Executive Director (AED). The AED's salary for claiming purposes is fully chargeable across CUCS' many programs and multiple funding sources as Program Administration. The AED position is responsible for, but not limited to, staff supervision, program performance, staff training, utilization and review and other duties that are strictly related to program management. His direct oversight of program staff and activities places him properly in the Program/Site Staffing category.

Comptroller's Comment - See prior Comptroller's Comment.

Other Program Administration Staff – Position Title Code 590
CUCS's Chief Operating Officer

OSC questioned $22,514 of direct salary claimed for CUCS' Chief Operating Officer (COO). The COO's program administrative duties include, but are not limited to, supervision of IT in regards to producing program related outcome measures as well as the implementation and maintenance of program specific software. Facilities management also falls within the purview of the COO and squarely in the scope of program administration because the position ensures that program specific standards are adhered to for all CUCS sites. In that regard, the COO directly supervises direct service staff and contracted staff with on-site program responsibilities. These functions are perfectly aligned with the functions of billable staff as defined by the applicable regulations. In addition, the COO procures all the insurance for CUCS which includes obtaining and managing all the contract/site specific certificates in order to be in compliance with government contracts.

CUCS Human Resource Staff

OSC has also disallowed $62,854.73 of personal services costs associated with five staff members in Position Code 590 who performed direct administrative support to contract #225 sites in human resources capacities.

Pursuant to Section 51, the personal services costs of those five members were billed by

CUCS as direct services staff under Position Code 590 to various programs, including contract #225. Conversely, none of those personal services costs were claimed as Administrative Overhead to any contract in compliance with Section 42 and their remaining salary were claimed as direct salary to other non-DOHMH contracts.

Finally, the staff at issue, including their job titles and functions, are identified in the program PS budget that DOHMH approved and subsequently audited. In the case of the five staff members in Position Code 590, they were not charged as administrative overhead to any contract.

Non-Personal Service Costs

The OSC also identifies $11,889 in costs they incorrectly deem ineligible and another $32,000 incorrectly deemed questionable. These OTPS costs were directly related to and benefitted contract #225 and the reimbursement claims for both are appropriate and justified.

Comptroller's Comment - The information submitted to the auditors was insufficient to support the propriety of the noted payments.

Ineligible Costs

Hiring Expenses of an Employee Who Did Not Work on the Funded Programs and Extending the Work Visa of Another Employee Who Also Did Not Work on the Funded Program

The $6,560 of hiring expenses reflects recruitment services that resulted in Assistant Program Director Barrie Nulman's placement at the Times Square, a program funded under this contract. Contrary to the OSC's finding, Mr. Nulman was Program Director of the program, supervised FTE's, and serviced clients funded by DOHMH. The $3,425 for extending a work visa reflects legal services rendered for the extension of Assistant Program Director Sabina Galli's visa which allowed her to continue working at the Prince George, a program funded under this contract. Contrary to the OSC finding, at the time the OTPS cost was incurred, Ms. Galli was the Assistant Program Director and this cost was appropriately claimed to the contract.

Comptroller's Comment - As noted in our report, the salaries of these employees were not charged to the DOHMH-funded contracts we audited. Consequently, it is unclear that the employees provided services under those contracts. Therefore, we maintain that the ancillary expenses relating to these employees were not eligible for reimbursement.

Out of Town Lodging Expenses without Supporting Invoices

The OSC questions three travel related expenses totaling $1,904.00. All of the trips were mission driven and the two trips in question were taken by two staff members of our training department who travelled together to the "Home for Good" national conference of experts from around the nation who convened to share best practices and strategies for working with homeless people. The third trip in question to Buffalo, NY during the late winter of 2013 was for purposes of conducting training. CUCS conducted hundreds of trainings during the audit period;

nonetheless, it is our error for not being able to locate the invoices for these three trips.

Comptroller's Comment - The information submitted to the auditors was insufficient to support the propriety of the noted payments.

Questionable Charges for Rent Subsidies

Under this contract, CUCS is responsible for providing social services to special needs tenants who have been placed into supportive housing. DOHMH's position is that the Supportive Housing provider should attempt to assist the tenant in maintaining housing, including paying rent in arrears when the client fails to pay his or her portion of the rent and non-payment may lead to loss of housing.

The payments deemed questionable by the OSC fall into that category, and by definition exceed the contracted share. CUCS works closely with the property manager, another non-profit jointly responsibly for maintaining the supportive housing program, to ensure the stability of clients, and when rental arrears payments are required, does so based on the tenant's rent portion which is calculated using the tenant's verified income at lease signing and recertification. CUCS offered to review the property managers' rent ledgers and/or invoices with OSC to address this concern.

Comptroller's Comment - As noted in the report, we did not disallow the rental costs (totaling about $32,000) in question. Nevertheless, we questioned the propriety of reimbursing rental charges above and beyond the contracted amounts. It was unclear that such costs should have been claimed and reimbursed. Thus, we maintain that such charges should be thoroughly documented, reviewed, and approved prior to accepting them for reimbursement.

Center for Urban Community Services

Addendum

OSC FTE Calculation Response

Calculating Full-Time-Equivalents

For the purpose of reporting employees and salaries, Section 12.5 of the New York State Consolidated Budget Reporting and Claiming Manual ("CBR Manual") mandates that CUCS report the employee hours worked, amounts paid, and FTEs, defining a full-time equivalent to as the product of the standard work week, 35 hours at CUCS, multiplied by 52 weeks, or 1,820 hours. The correct number of FTEs is then determined by dividing "the number of hours paid" by 1,820 hours.

Comptroller's Comment - We do not dispute that 1,820 hours of work annually corresponded to 1.0 FTE employee for CUCS. However, certain employees were not employed by CUCS for a full year and/or did not actually work (and get paid for) 1,820 hours in a year. Consequently, QFR costs should not be based on projections of a full year of work for all budgeted employees. Moreover, as CUCS officials acknowledge, these calculations do not support the amounts reported on CUCS's QFRs. The fact remains that, throughout the course of the entire audit, CUCS officials could not provide sufficient evidence and support for the amounts they reported on their QFRs.

In the OSC calculation, the three employees listed above are treated as full-time equivalents. When their total compensation is divided by three, the result is an annual salary of $11,765 ($35,295/3) per FTE, which in turn generates an audit finding of $10,953, per the excerpts below:

Name	QFR1	QFR2	QFR3	QFR4	Total QFR Claim		Gross Annual ADP Compensation
Times Square							
190 - Other Support Staff							
M.C	[redacted]			286.80	286.80		559.54
L.F	3,936.38	4,222.60	3,813.23	4,518.24	16,490.45		17,118.72
D.R	2,089.10	2,924.74	3,986.44	-	9,000.28		17,617.21
	6,025.48	7,147.34	7,799.67	4,805.04	25,777.53		35,295.46
	6,025.48	7,147.34	7,799.67	4,805.04	25,778.00		
	-	-	-	-	(0.47)		

Position	Budget Mod 2 (8/5/14)				Average ADP Salary	Budget Average Salaries Less Average ADP Salaries	Difference in Average Salaries X Approved Budget FTE
	Amount	FTE	Amount Per FTE				
190 - Other Support Staff	25,778	1.26	20,458.73		11,765.15	8,693.58	10,953.91

However, M.C. was paid for a total of only 50 hours in FY2013; using the CBR Manual's definition, this staff position should be treated as the equivalent of .027 FTE's, not 1. In the diagram below, CUCS used the OSC model but added additional detail, using the actual hourly rate paid to each employee from ADP ($11.2468), multiplied by 1,820 hours, which is the standard for hours worked in a year.

Name	QFR1	QFR2	QFR3	QFR4	Total QFR Claim		Gross Annual ADP Compensation		ADP Hourly Rate	FTE Calculation @ 1820 Hours
Times Square										
190 - Other Support Staff										
M.C	[redacted]			286.80	286.80		559.54		11.2468	20,469.18
L.F	3,936.38	4,222.60	3,813.23	4,518.24	16,490.45		17,118.72		11.2468	20,469.18
D.R	2,089.10	2,924.74	3,986.44	-	9,000.28		17,617.21		11.2468	20,469.18
	6,025.48	7,147.34	7,799.67	4,805.04	25,777.53		35,295.46		3	61,407.54
	6,025.48	7,147.34	7,799.67	4,805.04	25,778.00					
	-	-	-	-	(0.47)					

Annualizing the analogous hourly salaries results in a calculation that is in line with what CUCS claimed, per the diagram below:

Position	Budget Mod 2 (8/5/14)				Average ADP Salary	Budget Average Salaries Less Average ADP Salaries	Difference in Average Salaries X Approved Budget FTE			Average ADP Salary	Budget Average Salaries Less Average ADP Salaries	Difference in Average Salaries X Approved Budget FTE
	Amount	FTE	Amount Per FTE									
190 - Other Support Staff	25,778	1.26	20,458.73		11,765.15	8,693.58	10,953.91			20,469.18	(10.45)	(13.17)

Similarly, there are instances in the OSC calculations where staff members are listed with no compensation claimed. Where that null value is used in the denominator, the resulting calculation suggests an overpayment. The following is an excerpt from the OSC detail spread sheet regarding 342 – Clinical Coordinator**:**

Name	QFR1	QFR2	QFR3	QFR4	Total QFR Claim		Gross Annual ADP Compensation
Times Square							
342 - Clinical Coordinator							
L.C	14,606.27	5,103.53	(16.00)	16.00	19,709.80		21,956.93
M.D	430.63	422.57	342.09	-	1,195.29		30,612.52
K.G	[redacted]	7,421.10	13,193.07	(10,659.30)	9,954.87		55,679.01
K.H	-	[redacted]			-		[redacted]
V.L	-				-		-
S.N	-				-		-
J.S	1,168.89	1,186.88	1,150.91	1,168.90	4,675.58		65,962.62
	16,205.79	14,134.08	14,670.07	(9,474.40)	35,535.54		174,211.07
	16,205.79	14,134.08	14,670.07	(9,474.40)	35,536.00		(174,211/6)
	-	-	-	-	(0.46)		29,035.18

The average salary for this position as calculated by OSC with a denominator of 6 is $29,035. Calculating the salary using a denominator of 4 and 1,820 hours paid as a basis for determining an FTE yields an average salary of $43,553.

<u>The OSC Methodology Is Problematic For Some Non-homogeneous Staff</u>

Non-homogeneous members, such as the Utilization Review/Quality Assurance staff, have annualized salaries that range widely, from $50,000 to $90,000. The diagram below is an excerpt from the OSC detail spread sheet regarding 521 – Utilization Review/Quality Assurance- with two additional columns added by CUCS in the right margin to show the ADP Hourly rate for each individual and the FTE calculation at 1820 hours:

Name	QFR1	QFR2	QFR3	QFR4	Total QFR Claim		Gross Annual ADP Compensation		ADP Hourly Rate	FTE Calculation @ 1820 Hours
Times Square										
521 - Utilization Review / Quality Assurance										
S.L	1,802.97	1,830.71	1,775.23	1,802.97	7,211.88		83,451.61		44.1268	80,310.78
S.M	4,968.85	5,297.56	5,137.02	5,217.29	20,620.72		96,273.41		49.1251	89,407.68
L.R	6,031.35	6,124.14	5,938.56	7,498.35	25,592.40		72,096.15		37.7334	68,674.79
P.S	5,945.03	6,036.49	5,853.57	8,478.23	26,313.32		88,930.93		46.3334	84,326.79
A.V	9,057.92	9,206.83	8,953.72	9,685.50	36,903.97		52,528.41		27.2034	49,510.19
	27,806.12	28,495.73	27,658.10	32,682.34	116,642.29		393,280.51		5	372,230.23
	27,806.12	28,495.73	27,658.10	32,682.34	116,642.00					
	-	-	-	-	0.29					

The salary differences among this group are justified by their different roles and qualifications. For example, S.M is the director of this unit and earns a total annual compensation of $96,273.41, which is 45% greater than A.V, who is S.Ms' special assistant. This salary difference is not accounted for in OSC's analysis. The above example is provided to illustrate instances in the OSC calculation where widely varying salaries and job responsibilities are merged to create an average salary which can skew the results.