



STATE OF NEW YORK
OFFICE OF THE STATE COMPTROLLER

September 14, 2018

Howard A. Zucker, M.D., J.D.
Commissioner
Department of Health
Empire State Plaza
Corning Tower Building
Albany, NY 12237

Re: Report 2018-BSE03-01

Dear Commissioner Zucker:

We examined¹ select subcontractor expenses associated with 16 payments the Department of Health (Department) made to Island Peer Review Organization (IPRO) under contract C027596. During the period January 21, 2015 through January 30, 2018, subcontractor expenses included more than \$112,000 in administrative charges and nearly \$180,000 in out-of-pocket expenses. Our objective was to determine whether the Department's payments to IPRO for subcontractor expenses were in compliance with the contract and related agreements with subcontractors known as Master Indefinite Delivery Indefinite Quantity Services Agreements and task orders (collectively, agreements).

A. Results of Examination

Our Office found Department staff approved payments to IPRO for subcontractor expenses that were not allowable under the contract. Based on our findings, the Department prevented or recovered improper payments totaling more than \$133,000.

1. Subcontractor Administrative Charges

We identified \$4,000 in administrative charges for a single payment to one subcontractor that were not allowed under the agreements. Upon notifying the Department, officials reviewed other previously paid IPRO vouchers to determine whether such vouchers also included administrative charges that were not allowed. Based on the Department's review, officials identified and recovered nearly \$61,000 in administrative charges, including the \$4,000 we identified, that were not allowed under the terms of the agreements. Further, officials changed their invoice review

¹We performed our examination in accordance with the State Comptroller's authority set forth in Article V, Section 1 of the State Constitution, as well as Article II, Section 8(1) and (7), and Article VII, Section 111 of the State Finance Law.

process, which enabled them to prevent more than \$46,000 in additional unallowable administrative charges on subsequent IPRO payment requests.

2. Subcontractor Out-of-Pocket Expenses

We identified \$16,000 in 15 payments for out-of-pocket expenses not allowed under the agreements. While the original agreements provided that out-of-pocket expenses would be reimbursed in addition to professional fees, subsequent agreements provided that professional fees included out-of-pocket expenses. After the original agreements expired and the subsequent agreements took effect, the subcontractors continued to bill for, and the Department continued to approve and pay for out-of-pocket expenses in addition to professional fees. Again, upon notifying the Department, officials took decisive action and recovered the \$16,000 and, with our collaboration, identified and prevented nearly \$10,000 in additional out-of-pocket expenses IPRO included on subsequent invoices that were not allowed under the agreements.

In addition to the findings contained in this report, we identified matters we considered to be of lesser significance. We conveyed these matters to Department officials verbally during our closing conference and did not include them in this report.

B. Background and Methodology

The Department entered into a \$79 million contract with IPRO to provide services related to the Health Home and Patient Centered Medical Homes (PCMH), Medicaid Redesign Team, and other Medicaid activities. This contract and its amendments were not subject to approval by the Comptroller's Office pursuant to Section 365-l of the Social Services Law. To help perform the services, IPRO entered into subcontracting agreements with five firms, final copies of which IPRO provided to the Department. The contract and subcontracting agreements provide the basis for the Department to monitor payments under the contract with IPRO.

To accomplish our objective, we analyzed the contract and subcontracting agreements, interviewed Department officials, and reviewed invoices and other pertinent documentation.

Department officials were cooperative throughout our examination and generally agreed with our findings. We appreciate Department officials' actions to recover and prevent the payment of more than \$133,000 in unallowable subcontractor expenses. The Department and IPRO further refined the specific terms and conditions in their task orders to better monitor future subcontractor expenses.

We provided the Department a copy of the draft report and considered their comments (Attachment A) in preparing this final report. Department officials generally agreed with our recommendation, stating they have clarified contract language with subsequent contractors and strengthened their review of similar contract payments.

Recommendation

Ensure Department only processes invoices containing allowable subcontractor expenses.

We thank the management and staff of the Department of Health for the courtesies and cooperation extended to our auditors during this examination. Since your response to the draft report is in agreement with this report, there is no need for a further response unless you feel otherwise. If you choose to provide a response, we would appreciate receiving it by October 14, 2018.

Sincerely,

Bernard J. McHugh
Director of State Expenditures

Encl: Attachment A

cc: Diane Christensen



**Department
of Health**

ANDREW M. CUOMO
Governor

HOWARD A. ZUCKER, M.D., J.D.
Commissioner

SALLY DRESLIN, M.S., R.N.
Executive Deputy Commissioner

August 17, 2018

Mr. Bernard J. McHugh, Director
Office of the State Comptroller
Bureau of State Expenditures
110 State Street
Albany, New York 12236-0001

Dear Mr. McHugh:

Enclosed are the Department of Health's comments on the Office of the State Comptroller's Draft Audit Report 2018-BSE03-01 entitled "Island Peer Review Organization (IPRO) under Contract C027596."

Thank you for the opportunity to comment.

Sincerely,

Sally Dreslin, M.S., R.N.
Executive Deputy Commissioner

Enclosure

cc: Marybeth Hefner
Elizabeth Misa
Geza Hrazdina
Daniel Duffy
Jeffrey Hammond
Jill Montag
Jackie McGovern
James Dematteo
James Cataldo
Diane Christensen
Lori Conway
OHIP Audit SM

**Department of Health Comments on the
Office of the State Comptroller's Draft Audit Report 2018-BSE03-01
regarding payments to Island Peer Review Organization (IPRO)
under Contract C027596**

The following are the Department of Health's (Department) comments in response to the Office of the State Comptroller's (OSC) Draft Audit Report 2018-BSE03-01 regarding payments to Island Peer Review Organization (IPRO) under contract C027596

Recommendation #1

Ensure IPRO subcontractor expenses are appropriate and consistent with agreement terms.

Response #1:

As noted in the audit report, the Department agrees with this recommendation and is pleased that OSC recognized the action the Department took to prevent or recover all unallowable expenses under the IPRO contract when the Department was notified of the issues identified in the report. The IPRO contract has since expired so there will be no additional expenses to review; however, we have clarified our contract language with subsequent contractors and strengthened our review of similar contract payments.