



STATE OF NEW YORK  
OFFICE OF THE STATE COMPTROLLER

May 19, 2015

Ann Marie T. Sullivan, M.D.  
Commissioner  
Office of Mental Health  
44 Holland Avenue, 8<sup>th</sup> Floor  
Albany, NY 12229

Re: Report 2014-0001

Dear Dr. Sullivan:

Our office examined<sup>1</sup> select payments made by the Office of Mental Health (OMH) to PSCH, Inc. (PSCH) for the period July 1, 2012 through June 30, 2013. During this period, OMH paid PSCH almost \$6.8 million under contract C007377 to provide services and housing to persons with mental disabilities. The objective of our examination was to determine whether OMH properly reimbursed PSCH according to the terms and conditions of the contract.

**A. Results of Examination**

We found that OMH did not always reimburse PSCH according to the terms and conditions of the contract. OMH relies on internal fiscal desk audits, on-site program monitoring and the certification by an independent Certified Public Accountant (CPA) to ensure that expenditures claimed have actually been incurred, are accurate, and are related to the contracted program services. However, we examined \$1.6 million in expenses that PSCH claimed on the Consolidated Fiscal Report (CFR) and found that \$152,680 in costs did not comply with the terms and conditions of the contract, including \$54,809 in non-allowable expenses and \$97,871 in duplicate, inappropriate or unsubstantiated charges.

We shared a draft report with OMH officials and considered their comments (Attachment B) in preparing this final report. In their response, OMH officials agreed that PSCH did not always report expenses in accordance with established requirements. OMH officials also stated that they will take steps to ensure PSCH makes any needed corrections to previously submitted cost reports, will ensure future cost reports are completed correctly, and will recover program overpayments where appropriate.

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

## **B. Background and Methodology**

OMH entered into a contract with PSCH to provide services and housing to persons with mental disabilities and substance abuse. Under the contract, eligible expenditures are those actual, reasonable and necessary expenses incurred in the provision of contract services. PSCH is required to account for expenditures and revenues by program category, as budgeted, and must maintain records and supporting documentation for audit.

In addition, contract C007377 is a net deficit-funded contract. As such, OMH reimburses PSCH the difference between the revenues PSCH collects from non-OMH sources and its expenditures up to the amount of the contract. For the year ended June 30, 2013, PSCH reported approximately \$9.7 million in revenues and \$17.5 million in program-related expenditures. As a result, OMH reimbursed PSCH the full contract amount of almost \$6.8 million, leaving approximately \$1 million in unfunded expenditures.

To accomplish our objectives, we interviewed OMH and PSCH staff, and reviewed PSCH's Consolidated Fiscal Report, general ledger transactions, payroll registers, time sheets, bank statements, and other supporting documentation. Of the \$17.5 million in program-related expenditures PSCH claimed during our examination scope period, we reviewed 694 transactions totaling \$1.6 million, or 9 percent of all general ledger transactions.

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

## **C. Details of Findings**

All service providers operating programs under the jurisdiction of OMH must file an annual Consolidated Fiscal Report (CFR) to document the expenses and revenues related to their programs. The New York State Consolidated Fiscal Reporting and Claiming Manual (CFR Manual) provides guidance related to allowable and non-allowable expenses that can be claimed on the CFR. In addition, the CFR Manual includes comprehensive guidance for CPAs to conduct audits to ensure that expenditures have actually been incurred, are accurate, and are related to contracted program services.

OMH relies on internal fiscal desk audits, on-site program monitoring and the certification by an independent CPA to ensure that expenditures claimed on the CFR are actual, reasonable and necessary in the provision of contract services.

We examined \$1.6 million in expenses that PSCH claimed on the CFR and found that \$152,680 (nearly 10 percent) in expenses did not comply with the terms and conditions of the contract. This includes \$54,809 for non-allowable expenses and \$97,871 for expenses that were duplicate, inappropriate or unsubstantiated.

### **Non-Allowable Expenses**

During our examination period, we found OMH reimbursed PSCH \$54,809 for costs related to the entertainment of employees and their guests, which is not allowed under Appendix X in the CFR Manual. This includes \$31,908 for a Board of Directors' conference at the Montauk Yacht Club Resort & Marina and \$22,901 for a staff picnic at Cunningham Park in Queens.

#### **Board of Directors' Conference**

From Friday, October 26, 2012 through Saturday, October 27, 2012, PSCH's Board of Directors and executive staff attended a two-day conference which encompassed board meetings and staff training at the Montauk Yacht Club Resort & Marina. For this event, PSCH claimed \$31,908 (more than half the total \$62,858 spent on the two-day conference), as administrative expenses, including \$10,723 for alcohol.

We found these expenses were inappropriate because they were not directly related to the board meetings or training but were for the entertainment of employees and their guests. In addition, certain board members and executive staff and guests elected to stay an additional night after the conference ended, resulting in additional charges for rooms, a sunset cruise, dinner, and breakfast. See Attachment A for a complete list of inappropriate expenses related to the conference.

#### **Staff Picnic**

In addition, we found that PSCH also claimed \$22,901 in administrative expenses for costs related to the entertainment of its employees at a staff picnic at Cunningham Park in Queens. This includes: \$14,955 for the picnic; \$3,420 for staff appreciation giveaways (e.g., coolers, T-shirts, pens, umbrellas); \$2,406 for double-ordered chairs, tables and tablecloths; \$1,300 for ice cream; \$520 for raffle prizes and \$300 for name painting.

### **Duplicate, Inappropriate or Unsubstantiated Expenses**

We found that PSCH was reimbursed \$97,871 for expenses that were not actual, reasonable and necessary in the provision of contract services. These include:

- \$64,730 in expenses that were paid twice: a \$63,405 invoice for contracted services, \$574 to utilities on behalf of program participants and \$751 in rent.
- \$20,834 in expenses that occurred in the prior year and should not have been included on the 2012-2013 CFR. PSCH may be able to modify its 2011-2012 CFR for these expenses.

- \$8,568 in expenses that were charged directly to a program or program administration but should have been charged to agency administrative expenses, which would have been reimbursed at a lesser administrative rate.
- \$1,355 in expenses that should have been charged to other PSCH contracts.
- \$2,384 for travel expenses for consultants/presenters that could not be substantiated by supporting documentation.

### **Recommendations**

- 1) *Ensure PSCH properly modifies its 2012-2013 CFR for the \$152,680 in findings identified in this report.*
- 2) *Ensure PSCH staff charge expenses in accordance with the Consolidated Fiscal Reporting and Claiming Manual.*
- 3) *Ensure PSCH staff receive the training necessary to recognize costs not allowed by Appendix X of the Consolidated Fiscal Reporting and Claiming Manual (e.g. alcohol, entertainment expenses).*
- 4) *Ensure PSCH staff receive the training necessary to ensure that expenses are necessary and reasonable, expenses are charged to the correct programs, and appropriate supporting documentation is maintained.*
- 5) *Review all expenses claimed over the life of the contract to determine if they are allowed by Appendix X of the Consolidated Fiscal Reporting and Claiming Manual. Ensure PSCH properly accounts for expenses. OMH should recover any overpayments.*

We would appreciate your response to this report by June 19, 2015, indicating any actions planned to address the recommendations in this report. We thank the management and staff of the Office of Mental Health for the courtesies and cooperation extended to our auditors.

Sincerely,

Bernard J. McHugh  
Director of State Expenditures

Encl: Attachment A  
Attachment B

cc: James Russo

OFFICE OF MENTAL HEALTH  
INAPPROPRIATE REIMBURSEMENTS TO PSCH, INC.  
BOARD OF DIRECTORS CONFERENCE AT MONTAUK YACHT CLUB  
OCTOBER 26, 2012 THROUGH OCTOBER 27, 2012

<b>Description</b>	<b>Amount</b>
Alcohol (beer, wine, and liquor)	\$10,723
Saturday Dinner	6,312
Rooms for additional night	5,746
Restaurant charges for guests	4,557
Sunday breakfast	1,320
Petty Cash for tips	1,000
Saturday Night Sunset Cruise	1,000
Gift candles, including delivery fee	743
Rooms for three non-employees	507
<b>TOTAL</b>	<b>\$31,908</b>



**Office of  
Mental Health**

ANDREW M. CUOMO  
Governor

ANN MARIE T. SULLIVAN, M.D.  
Commissioner

MARTHA SCHAEFER  
Executive Deputy Commissioner

Bernard J. McHugh  
Director of State Expenditures  
Office of the State Comptroller  
110 State Street  
Albany, NY 12236-0001

Dear Mr. McHugh:

The Office of Mental Health (OMH) has reviewed the Office of the State Comptroller's (OSC's) draft audit report (2014-001) on select payments made by OMH to PSCH, Inc. for the period July 1, 2012 through June 30, 2013. Our comments to the findings and recommendations are enclosed.

The Office of Mental Health appreciates OSC's efforts to recommend improvements in our operations.

Many thanks to you and your audit team for the courtesies and cooperation extended during the engagement.

Sincerely yours,

A handwritten signature in blue ink that reads "Martha Schaefer". The signature is written in a cursive style.

Martha Schaefer  
Executive Deputy Commissioner

Enclosure

**OFFICE OF MENTAL HEALTH  
RESPONSE TO THE OFFICE OF THE STATE COMPTROLLER  
DRAFT AUDIT REPORT 2014-0001  
SELECT CONTRACT PAYMENTS MADE TO PSCH, INC.**

**Overall OMH Comments**

OMH has reviewed the findings and recommendations in the Office of the State Comptroller's (OSC) report (2014-001) on select payments made by the Office of Mental Health (OMH) to PSCH for the period July 1, 2012 through June 30, 2013. OMH agrees with the report's findings that PSCH and their accountants did not always report expenses in accordance with established reporting requirements. As detailed below, OMH will take steps to ensure that PSCH makes any needed corrections to previously submitted cost reports and that future cost reports are completed correctly.

**OMH's Responses to OSC's Recommendations**

**OSC Recommendation No. 1**

Ensure PSCH properly modifies its 2012-2013 CFR for the \$152,680 in findings identified in this report.

**OMH Response**

OMH will follow up on the findings detailed in the report and ensure that PSCH properly modify its 2012-2013 Consolidated Fiscal Report (CFR). OMH will recover program overpayments where appropriate.

**OSC Recommendation No. 2**

Ensure PSCH staff charge expenses in accordance with the Consolidated Fiscal Reporting and Claiming Manual.

**OMH Response**

OMH conducts an annual regional training workshop to assist providers in the preparation of the CFR. OMH will work with PSCH to ensure that appropriate staff attend these workshops. In addition, OMH will offer to work directly with PSCH on appropriate reporting and claiming procedures.

**OSC Recommendation No. 3**

Ensure PSCH staff receive the training necessary to recognize costs not allowed by Appendix X of the Consolidated Fiscal Reporting and Claiming Manual (e.g. alcohol, entertainment expenses).

**OMH Response**

In addition to the steps included in OMH's response to OSC's second recommendation, OMH will add a statement in relevant sections of its *Aid-to-Localities Spending Plan Guidelines* reiterating that providers should refer to Appendix X (Adjustments to Reported Costs) of the Consolidated Fiscal Reporting and Claiming Manual for a list of items of expense that are considered non-allowable. OMH will also increase their emphasis on such matters in the annual CFR training.

**OSC Recommendation No. 4**

Ensure PSCH staff receive the training necessary to ensure that expenses are necessary and reasonable, expenses are charged to the correct programs, and appropriate supporting documentation is maintained.

**OMH Response**

As stated in the previous OMH responses above, OMH will: a) work with PSCH to ensure that appropriate staff attend OMH's annual training workshop; b) reach out to PSCH and offer to work directly with them on appropriate reporting and claiming procedures; and, c) encourage PSCH to send appropriate staff to the annual CFR training to ensure an understanding of reporting requirements and funding restrictions.