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STATE OF NEW YORK
OFFICE OF THE STATE COMPTROLLER

September 15, 2020

Ann Marie T. Sullivan, M.D.
Commissioner
Office of Mental Health
44 Holland Avenue
Albany, NY 12229

Re: Administration of the Contract With
the Postgraduate Center for Mental
Health
Report 2019-F-51

Dear Dr. Sullivan:

Pursuant to the State Comptroller's authority as set forth in Article V, Section 1 of the State Constitution and Article II, Section 8 of the State Finance Law, we have followed up on the actions taken by officials of the Office of Mental Health (OMH) to implement the recommendations contained in our audit report *Administration of the Contract With the Postgraduate Center for Mental Health* (Report [2015-S-88](#)) issued December 30, 2016.

Background, Scope, and Objective

OMH's mission is to promote the mental health and well-being of all New Yorkers. One of OMH's major programs is known as "supportive housing," which combines affordable housing and varying levels of community-based support services. OMH hires independent contractors to operate many of these programs. Supportive housing programs are governed by OMH's Supported Housing Guidelines (Program Guidelines) for services and by OMH's Supported Housing Contract and Budgeting Guidelines for fiscal administration purposes. The Postgraduate Center for Mental Health (PCMH), a not-for-profit entity, is one of New York's largest providers of supportive housing services. Through the supportive housing program, PCMH assigns clients to private apartments scattered throughout the local communities as well as in multiple dwelling units. PCMH must file an annual Consolidated Fiscal Report (CFR) with OMH. The CFR categorizes and summarizes all contract costs and serves as a cost claiming document for program reimbursement. At the end of each contract year, OMH reviews the reported data on the CFR for reasonableness, and reconciles the total advance payments to the contract budget and to the total approved costs claimed on the CFR.

Our initial audit objective was to determine whether OMH was effectively administering its Supportive Housing Contract with PCMH by ensuring that contracted services were provided and that only appropriate and supported expenses were reimbursed. The audit found that sampled clients were program-eligible and were referred to the program via the proper authorities and that sampled client case files contained documentation of the client's required

Service Plan and subsequent monthly case manager contacts. However, our visits to certain client apartments identified what appeared to be ongoing conditions that could negatively affect the health and/or safety of clients. For example, three of the apartments visited had significantly damaged ceilings/walls, two apartments did not have smoke/carbon monoxide detectors installed, and one apartment had a severe bedbug problem.

We identified \$697,938 in unsupported and/or inappropriate expenses charged to the audited contract and other related OMH contracts. These expenses included charges for a profit-sharing account that primarily benefited three PCMH executives; a deferred compensation plan reserved solely for PCMH's Chief Executive Officer; parties and alcoholic beverages for staff; and unsupported professional fees and staff travel. We also found deficiencies in efforts by OMH program staff to follow up on recommendations to PCMH resulting from field visits, and excessive delays by OMH to recover \$1.4 million in surplus advances from the 2011-12 through 2013-14 fiscal years.

The objective of our follow-up was to assess the extent of implementation, as of July 17, 2020, of the nine recommendations included in our initial audit report.

Summary Conclusions and Status of Audit Recommendations

OMH officials have made some progress in addressing the problems we identified in the initial audit report. Of the initial report's nine audit recommendations, four were implemented, one was partially implemented, three had not been implemented, and one was no longer applicable.

Follow-Up Observations

Recommendation 1

Require PCMH case managers to take prompt action when apartment conditions pose potential health and/or safety hazards to clients.

Status – Implemented

Agency Action – The OMH New York City (NYC) Field Office conducts site visits to PCMH scattered sites to observe apartment conditions. When NYC Field Office staff observe conditions that pose potential health and/or safety hazards to clients, OMH requires PCMH to prepare corrective action plans and take action to address the issues. OMH provided documentation showing that it reviews PCMH corrective action plans and communicates expectations for taking prompt action to address poor apartment conditions.

In addition, in response to our initial audit report, OMH officials have modified the Program Guidelines to state that the supportive housing provider “bears primary responsibility for advocating for tenants and working with landlords to ensure that the residents’ apartments are safe and habitable, and that repairs are completed promptly.” Program Guidelines also state that services delivered by supportive housing providers include “instruction and assistance with resolving apartment and building maintenance issues.”

Recommendation 2

Issue formal guidance to providers that addresses the actions to be taken when clients exhibit significant problems living on their own and pose a potential danger to themselves and/or others.

Status – Implemented

Agency Action – OMH updated its Program Guidelines in 2019 to address the actions to be taken when clients exhibit significant problems living on their own. For example, the new Program Guidelines state that supportive housing providers should “develop a mechanism to identify and follow up on consumers who are at high risk of losing their housing,” which includes having staff bring concerns and observations to program management to develop strategies for intervention and additional services.

Recommendation 3

Ensure that only program-eligible and properly supported expenses are reimbursed to PCMH.

Status – Partially Implemented

Agency Action – OMH has conducted workshops and technical assistance sessions to educate providers about non-allowable costs, common errors, and consolidated fiscal reporting requirements. Further, OMH conducts annual desk reviews of PCMH’s CFRs. Thereafter, OMH’s CFR Unit staff issues a desk review letter to providers for whom there are follow-up questions on the data reported or providers for whom OMH identified errors in their submissions. In instances where non-allowable expenses were reported on the CFR, a follow-up desk review letter is to be issued to the provider instructing it to back out the disallowed expenses on the non-allowable lines of the relevant CFR schedules, and to upload a revised CFR.

As we found during our initial audit, OMH requests narratives and general ledger detail to learn more about certain expenses. Further, OMH officials have developed standardized desk review procedures and stated that they now more frequently request supporting documentation related to questions, concerns, or errors reported on the CFR. However, OMH has not expanded its desk reviews to request more detailed supporting documentation, such as invoices and time and attendance records, that would allow it to better ensure that only program-eligible expenses are reimbursed.

OMH officials advised that their Bureau of Audit conducts risk-based audits of local providers to ensure funds have been spent in accordance with the Mental Hygiene Law and other relevant guidelines (including the CFR Manual); supporting documentation has been maintained; and program expenses are reasonable, necessary, and appropriate. We believe that expanding desk reviews would allow OMH to better identify non-program-eligible expenses and take appropriate actions with its providers. Officials responded that, given the volume of reviews and limited resources, requesting and reviewing detailed supporting documentation during desk reviews is not feasible. They advised that OMH relies on CPA certifications to provide assurance that CFR schedules conform to the applicable instructions related to the preparation of those schedules.

Recommendation 4

Recover the \$697,938 in inappropriate and unsupported expenses charged to the audited contract and other OMH contracts cited in our report.

Status – Not Implemented

Agency Action – OMH has not recovered any of the \$697,938 in inappropriate and unsupported expenses charged to the audited contract and other OMH contracts cited in our initial audit report. OMH officials advised that they are awaiting formal resubmission of PCMH's CFRs in order to perform a final reconciliation of the reported expenditures with the OMH contract. Officials further advised that when they receive and review the resubmitted CFRs, OMH will complete a final reconciliation and then recover any remaining funds, including what it had determined to be non-allowable costs from our audit.

Recommendation 5

Follow up on OMH program staff requests for corrective action plans from providers, and determine whether corrective actions were actually taken in these cases, as well as any other apartments where similar conditions exist.

Status – Implemented

Agency Action – After OMH NYC Field Office staff visit apartments to observe conditions, a report is issued to the Executive Director of the reviewed agency and, if issues need to be addressed, a corrective action plan is requested. OMH staff review the agency's corrective action plan and issue a letter to the provider indicating whether the plan is satisfactory or unsatisfactory. If the corrective action plan is unsatisfactory, OMH sends the agency a letter detailing the standards that are still unmet and continues to monitor the implementation of the corrective action plan and conduct additional reviews as needed. To illustrate OMH's follow-up efforts related to provider corrective action plans, OMH officials provided us with documentation showing that they have requested follow-up information and clarification about PCMH corrective action plans. OMH officials indicated that, because PCMH operates 441 scattered site units, it is not feasible to visit every apartment and interview every consumer to assess conditions. They believe that, by visiting a sample of apartments in addition to identifying specific unsatisfactory conditions, OMH can determine if PCMH has an adequate system for identifying and addressing poor conditions.

Additionally, although the specific apartments cited for deficiencies are not necessarily revisited, OMH has reviewed PCMH more frequently than required due to the issues we identified. OMH typically plans to visit each provider and conduct a review of the supportive housing program every three years; additional reviews were conducted in December 2018 and January 2020.

Recommendation 6

Expand desk reviews of provider CFRs to include review, on a sample basis, of supporting documentation to ensure that claimed program expenses are reasonable, necessary, and appropriate.

Status – Not Implemented

Agency Action – OMH conducts annual desk reviews of PCMH's CFRs. Thereafter, OMH's CFR Unit staff issues a desk review letter to providers for whom there are follow-up questions on the reported data or providers for whom OMH identified errors in their submissions. In instances where non-allowable expenses were reported on the CFR, a follow-up desk review letter is issued to the provider instructing it to back out the disallowed expenses on the non-allowable lines of the relevant CFR schedules, and to upload a revised CFR. As we found during our initial audit, OMH continues to request narratives and general ledger detail to learn more about certain expenses. Further, OMH officials have developed standardized desk review procedures and, according to OMH, it more frequently requests supporting documentation related to questions, concerns, or errors reported on the CFR. However, OMH has not expanded its desk reviews to request more detailed supporting documentation, such as invoices and time and attendance records, that would allow it to better identify non-program-eligible expenses.

While OMH officials pointed out other actions taken to ensure claimed expenses are reimbursable, we believe that expanding desk reviews would allow OMH to better identify non-program-eligible expenses and take appropriate actions with its providers. Officials responded that, due to the volume of reviews and limited resources, requesting and reviewing detailed supporting documentation during desk reviews is not feasible. They advised that OMH relies on CPA certifications to provide assurance that CFR schedules conform to the applicable instructions related to the preparation of those schedules.

Recommendation 7

Develop formal time frames for CFR close-outs and recoupments to help ensure that surplus advances are accounted for and recovered in a timely manner.

Status – Not Implemented

Agency Action – OMH has not developed formal time frames for CFR close-outs and recoupments to help ensure that surplus advances are accounted for and recovered in a timely manner. Although OMH's 2013 Internal Controls Manual states that OMH should be able to complete close-outs within two years of the end of a contract fiscal year, OMH officials indicated that this is not a realistic goal, citing several reasons including CFR submission delays and insufficient staffing levels. OMH is in the process of evaluating current processes to seek efficiencies that would potentially allow the agency, using existing resources, to more consistently meet the two-year goal for contract close-outs. Officials added that, although they are calculating close-outs during the COVID-19 pandemic, they are postponing recoupments. According to OMH officials, they are awaiting formal re-submission of PCMH's CFRs in order to perform a final reconciliation of the reported expenditures to the OMH contract. Once received and desk reviewed, OMH will complete a final reconciliation and then recover any remaining funds reflecting non-allowable costs. In addition, while the audited contract was reconciled, \$1 million of the \$1.4 million in surplus advances was not recovered.

Recommendation 8

Formally request, obtain, and review the consultant study of executive compensation performed for PCMH. Review and revise the amounts of executive compensation costs eligible for reimbursement, as warranted, if the study did not provide an adequate basis for the amounts of executive compensation claimed by PCMH.

Status – Not Applicable

Agency Action – OMH officials obtained the consultant study of executive compensation performed for PCMH. However, based on OMH's review of Executive Order 38 and PCMH's financial statements, OMH determined that the consultant study was not required, as it determined that PCMH was not a covered provider under the definition of the Order. Therefore, OMH did not review the consultant study to determine if it provided an adequate basis for the amounts of executive compensation claimed by PCMH.

Recommendation 9

Review the various sources of OMH guidance pertaining to contingency funds and ensure they are consistent. Follow up with PCMH officials to ensure PCMH has a clear and accurate record-keeping system for the use of contingency funds.

Status – Implemented

Agency Action – OMH updated its guidance on contingency funds to ensure consistency. The previous requirement that providers budget an overall amount averaging \$500 per client annually (for eligible contingency fund expenses) was removed from the various sources of OMH guidance. Consequently, OMH did not follow up with PCMH officials about a contingency fund record-keeping system, as one is not required under the new guidance.

Major contributors to this report were Joseph Gillooly and Netash Phull.

We would appreciate your response to this report within 30 days, indicating any actions planned to address the unresolved issues discussed in this report. We thank the management and staff of OMH for the courtesies and cooperation extended to our auditors during this review.

Very truly yours,

Michael Solomon
Audit Manager

cc: Wendy Fox, OMH
Tarra Pratico, OMH