



Office of Addiction Services and Supports

KATHY HOCHUL

Governor

CHINAZO CUNNINGHAM, MD

Commissioner

May 12, 2022

Honorable Thomas P. DiNapoli
New York State Office of the State Comptroller
NYS State Capitol Building
Albany, NY 12224

59 Maiden Lane, 31st Floor
New York, NY 10038

Re: Required 180 day response to Audit Report 2020-S-5

Dear Mr. DiNapoli:

In complying with the required 180 day response to the OSC's Audit of Oversight of Contract Expenditures of Palladia, Inc. (Report 2020-S-5 issued August 2021), OASAS offers the following update to the report recommendations:

1. *Recover \$2,508,602 in unallowable and/or unsupported costs from Palladia, including \$1,679,913 in personal service costs, \$779,458 in OTPS costs, and \$49,311 in parent agency administrative costs.*

In October of 2021, OASAS' Fiscal Audit and Review Unit (FARU) held a virtual entrance conference with Palladia for the purpose of commencing a follow up fiscal examination of Palladia's financial books and records in light of the OSC's audit findings. Prior to that meeting, a detailed list of required documentation was provided to Palladia. There have been several roadblocks during this ongoing Covid pandemic that have resulted in the very slow transmission of required documentation for review. Palladia was directed earlier this month to provide all required documents by May 13, 2022 or OASAS would accept all OSC findings and commence recovery of noted overpayments. Since that directive, Palladia has transmitted nearly all of the request documents so that the review can continue. Over the coming months OASAS expects to finalize its work and issue a draft of its findings to Palladia.

2. *Establish additional monitoring controls and improve oversight to ensure Palladia claims only actual expenses and that those expenses are allowable, reasonable, supported and consistent with the CFR manual, the Guidelines and the contract.*

As explained during the audit, the only way that the OSC could have made its determinations was to do exactly what they did; review Palladia's actual financial books

and records and compare that analysis to what they reported and claimed on schedule DMH-2 of the annual Consolidated Fiscal Report (CFR) submission. This is the same exact practice followed by OASAS' FARU and while we had intended to start our own review of Palladia, we held off based on the OSC advisement that it was going to start an audit. To this specific recommendation, OASAS currently has adequate monitoring controls in place to ensure the proper claiming of expenses.

3. *Ensure Palladia discloses all expenses and allocation methodologies during its budget process, specifically salary expenses shared between OASAS and non-OASAS programs and the details of those expenses included in parent agency administrative costs.*

The budgets submitted by a provider to OASAS' Regional Office contain a variety of information necessary to determine the extent of net deficit funding that can be provided. Funded providers are advised that their submission cannot include any non-allowable expenses. OASAS is clear with all funded providers as to the methodology that must be used in the formulation of its budgets. The issue of questionable claiming of expenses only arises with the submission of the annual CFR and can only be truly analyzed with an audit process similar to what the OSC did with Palladia. Unlike most other service related state agencies, the approach that OASAS takes is to utilize a risk assessment tool to prioritize which funded providers to proactively review and determine if their financial books and records appropriately support their annual CFR submissions.

OASAS intends to provide an additional update to the OSC at the conclusion of this process.

Please advise if there is anything else that you need.

Very truly yours,



Steven J. Shrager
Director of Audit Services

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