

THOMAS P. DINAPOLI
COMPTROLLER



110 STATE STREET
ALBANY, NEW YORK 12236

STATE OF NEW YORK
OFFICE OF THE STATE COMPTROLLER

April 10, 2013

Ms. Arlene Gonzales-Sanchez
Commissioner
Office of Alcoholism and Substance Abuse Services
1450 Western Avenue
Albany, NY 12203

Re: Chemical Dependency Program
Payments to Selected Contractors in
New York City
Report 2011-F-17

Dear Ms. Gonzales-Sanchez:

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 NYS Office of Alcoholism and Substance Abuse Services (OASAS) to implement the recommendations contained in our audit report, *Chemical Dependency Program Payments to Selected Contractors in New York City* (Report 2007-S-60), issued May 6, 2010.

Background, Scope and Objective

OASAS oversees the nation's largest and most diverse system of prevention, treatment and recovery services for drug and alcohol addiction. OASAS licenses, inspects, monitors and funds more than 1,300 local chemical dependency treatment programs. On July 1, 2004, OASAS entered into five-year State-funded contracts with Palladia Inc. (Palladia), and the Queens Child Guidance Center (Guidance Center) now called the Child Center of New York Inc. The OASAS contracts with these providers required them to provide chemical dependency treatment and program support services, such as medical supervision and rehabilitation services, to outpatients and to individuals in residences. The contracts were valued at \$43.6 and \$1.9 million respectively. For the period July 1, 2005 through June 30, 2006, OASAS payments to Palladia totaled \$8,032,665, and payments to the Guidance Center totaled \$346,223, for an aggregate of \$8.4 million.

The objective of our initial audit was to determine whether payments made by OASAS to Palladia and the Guidance Center, for the period August 3, 2005, through August 9, 2007, were appropriate and adequately supported. Neither contractor could document how it's reported Program related salaries and other expenses were allocated between their various programs. As a result, we could not verify that their reported Program expenses were appropriate. We also

found that OASAS did not effectively monitor contractor operations. We recommended OASAS recover the \$8.4 million of State funds paid to these contractors.

The objective of our follow-up review was to assess, as of January 2013, the implementation status of the seven recommendations in our initial report.

Summary Conclusions and Status of Audit Recommendations

We found that OASAS officials have made progress in addressing the matters identified in our initial report as four of the seven prior audit recommendations were implemented, two were partially implemented, and one was not implemented.

Follow-up Observations

Recommendation 1

Recover the \$8,032,665 in Program charges from Palladia, and the \$346,223 in Program charges from the Guidance Center, they could not adequately document as Program-related.

Status - Partially Implemented

Agency Action - OASAS officials followed-up on our findings and recommendations and determined that a total of \$788,950 should be recouped from Palladia and the Guidance Center. The \$17,641 OASAS determined to be due from the Guidance Center was recovered in January 2013. The \$771,309 OASAS determined to be due from Palladia is being recovered by reducing quarterly billings and \$514,206 has been recovered to date.

Recommendation 2

Fully enforce the Manual and Circular requirements. When contractors do not comply with these requirements and all other governing statutes, recover State funds, as appropriate.

Status - Implemented

Agency Action - To observe and enforce compliance with Manual and Circular requirements, OASAS has been using a risk-based approach to performing on-site reviews of provider fiscal operations to complement its CFR desk reviews. OASAS performed 38 on-site reviews during the period April 2010 through March 2011, and performed 45 on-site reviews the following fiscal year. In addition, OASAS issued updated Administrative and Fiscal Guidelines to its providers that went into effect in July 2010. The Guidelines are designed to help providers identify and comply with all administrative and program requirements. We reviewed the on-site reviews performed by OASAS for six sampled providers and found that OASAS had identified \$2.6 million in recoveries based on vendor noncompliance.

Recommendation 3

Audit all Program-related expenditures for other Palladia and Guidance Center contract years to determine whether the related charges are supported and Program appropriate. Recover all unsupported and inappropriate expenditures.

Status - Not Implemented

Agency Action - OASAS officials stated that they did not audit other program years for either Palladia or the Guidance Center due to a "lack of audit resources."

Recommendation 4

Require reviewers to obtain sufficient information to determine whether contractors are in compliance with the Manual and the Circular, when required.

Status - Implemented

Agency Action - OASAS issued a new Fiscal Operations Self Assessment Questionnaire to provide guidance to its auditors when assessing contractor compliance. In addition, in March 2012, training was provided to OASAS Field Office Program Managers. The training agenda included an emphasis on obtaining sufficient information to determine whether contractors are in compliance with the Manual and the Circular.

Recommendation 5

Revise the fiscal review instrument to include questions that would require reviewers to verify expenditure documentation and contract compliance.

Status - Implemented

Agency Action - OASAS officials have revised their Fiscal Review Instrument to require reviewers to verify expenditure documentation and contract compliance.

Recommendation 6

Develop contracts and program workscopes that clearly define funded programs and services to be provided.

Status- Implemented

Agency Action - OASAS has revised its newly issued contracts with providers to detail what specific programs and services are to be provided by the contractor, and, in turn, funded by OASAS.

Recommendation 7

Follow-up with the Guidance Center to determine what services are funded and assess the Program appropriateness of those services. If necessary, refer findings to the appropriate government officials.

Status- Partially Implemented

Agency Action - OASAS informs us that they continue to provide funding to the Guidance Center to operate two outpatient clinics. To date, they have not formally assessed the appropriateness of this program, but stated that OASAS' Program Unit staff will do so as part of their upcoming comprehensive review to renew the provider's certification to operate. These reviews are completed on a three year cycle. The Program Unit did perform a desk audit of the two programs and did not identify any issues as a result of that review.

Major contributors to this report were Todd Seeberger and Dick Gerard.

We would appreciate your response to this report within 30 days indicating actions planned to address the unresolved issues discussed in this report. We thank the management and staff of the Office of Alcoholism and Substance Abuse Services for the courtesies and cooperation extended to our auditors during this process.

Very truly yours,

Michael Solomon
Audit Manager

cc: Tricia Schell-Guy, Audit Liaison
Thomas Lukacs, Division of the Budget