

THOMAS P. DINAPOLI  
COMPTROLLER



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STATE OF NEW YORK  
OFFICE OF THE STATE COMPTROLLER

September 2, 2020

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

Re: Oversight of Provider Consolidated  
Fiscal Reports – Independent  
Living, Inc.  
Report 2019-S-60

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 conducted an audit of the Office of Mental Health's (OMH) oversight of Consolidated Fiscal Reports (CFRs) submitted by providers such as Independent Living, Inc. (ILI).

**Background**

OMH regulates, certifies, and oversees more than 4,500 programs operated by local governments and not-for-profit providers (providers) that assist New Yorkers with their mental health needs. These services include emergency, community support, and residential and family care programs offered in both inpatient and outpatient settings. OMH provides funding for these programs to counties, which then contract with the providers who offer the actual programs. (In certain cases, OMH also contracts directly with providers.) OMH funding allocations are generally historical and based on prior year amounts, with small annual percentage increases. OMH notifies counties of funds available for their respective programs through State Aid Letters. The expenditure of these funds by providers is governed by OMH's *Aid to Localities Spending Plan Allocation Guidelines* (Guidelines), which address, among other topics, fiscal controls, such as desk and field audits. Annually, providers are required to complete and submit to OMH a CFR that reports revenues, expenditures, and other key data by program. The CFR that a provider must submit – either a full version that requires completing all applicable schedules or one of three other abbreviated versions – depends on the type of program and the amount and type of funding received. The full CFR requires submitting audited financial statements and must be certified by an independent certified public accountant (CPA). According to the Guidelines, OMH may perform desk reviews and field audits, as needed, including reviewing costs reported on the CFR for compliance with appendices of the Consolidated Fiscal Reporting and Claiming Manual (CFR Manual).

ILI is a not-for-profit provider that offers mental health services, including advocacy and support, and crisis intervention programs in Dutchess, Orange, Rockland, Sullivan, and Ulster

counties. In 2018, it served over 5,800 individuals through its programs, including those funded by OMH. ILI received funding for its OMH programs both through contracts with Orange and Sullivan counties as well as directly from OMH. On its full CFR for the year ended December 31, 2018, ILI reported approximately \$2.9 million in expenses associated with the 12 OMH programs it operated.

### **Results of Audit**

OMH takes certain steps to ensure costs and other information reported by providers on their CFRs is accurate, documented, properly calculated, and allowable according to the CFR Manual. OMH officials stated that their goal is to perform a desk review of each year's CFR submitted by providers like ILI. The desk reviews incorporate computer-assisted auditing techniques to identify discrepancies for further review by an analyst. This may include requesting and reviewing supporting documentation from the providers. However, OMH generally does not perform detailed audits or field reviews of providers' CFR information. As of June 2020, OMH's desk review of ILI's 2018 CFR was still in progress and a field audit had not been completed. We reviewed certain costs reported by ILI on its CFR for the year ended December 31, 2018 and identified a small amount of costs – totaling \$1,071 – for an employee appreciation luncheon, which is an ineligible cost according to the CFR Manual.

OMH desk reviews are a practical way to obtain some assurance of the information reported by providers, especially given the small number of staff assigned to the CFR unit in its central office (four as of November 2019.) OMH officials also noted that full CFRs are reviewed by CPAs, providing another form of assurance. In addition, OMH officials explained they do not depend on information contained in the CFR to make decisions on funding allocations to counties and providers like ILI. Therefore, the impact of incorrect or overstated costs on providers' funding is somewhat reduced. However, OMH does use the CFR data for informational and analytical purposes, such as planning for targeted salary increases for direct care workers. With limited monitoring of the information reported by providers like ILI on their CFRs, there is a risk that the resulting conclusions drawn from this information may not be as useful for decision-making as they otherwise could be. OMH officials generally agreed with our audit findings and recommendation and provided comments to clarify certain points, which we have taken into consideration in preparing this report.

### **Recommendation**

1. Evaluate the potential for conducting field audits, on a risk basis, to more fully assess provider compliance with CFR Manual requirements for reporting, calculating, and documenting allowable costs on CFRs.

### **Audit Scope, Objective, and Methodology**

The objective of the audit was to determine whether OMH ensures that the costs reported by providers such as ILI are allowable, properly calculated, and adequately documented in accordance with CFR Manual requirements. The audit covered the information reported on ILI's CFR for the period January 1, 2018 through December 31, 2018.

To accomplish our objective and assess related internal controls, we interviewed officials from OMH, Orange County, and ILI regarding the CFR process and their respective roles in CFR completion, submission, and oversight. We also reviewed the CFR Manual and its appendices to gain an understanding of specific requirements for completion of the CFR. We examined ILI's CFR for the year ended December 31, 2018 and relevant financial records for

the audit period. We analyzed employee time records, and met with program staff to assess certain personal service costs. We also obtained accounting records and supporting information, and followed up with ILI officials to assess whether certain judgmentally selected costs claimed by ILI on the CFR that we considered high risk, such as supplies, or that had limited descriptions, like consulting and subcontracting, were adequately documented and allowable. The costs included in our sample totaled \$143,998. The results of our judgmental sample cannot be projected to the population.

We conducted our performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

In addition to being the State Auditor, the Comptroller performs certain other constitutionally and statutorily mandated duties as the chief fiscal officer of New York State. These include operating the State's accounting system; preparing the State's financial statements; and approving State contracts, refunds, and other payments. These duties may be considered management functions for purposes of evaluating organizational independence under generally accepted government auditing standards. In our opinion, these functions do not affect our ability to conduct independent audits of program performance.

### **Reporting Requirements**

We provided a draft copy of this report to OMH officials for their review and formal comment. We considered their comments in preparing this final report, and they are attached to the end of it. OMH officials generally agreed with our recommendation and described actions they have taken, and that are planned, to address it. Within 180 days after the final release of this report, as required by Section 170 of the Executive Law, the Commissioner of the Office of Mental Health shall report to the Governor, the State Comptroller, and the leaders of the Legislature and fiscal committees, advising what steps were taken to implement the recommendation contained herein, and if the recommendation was not implemented, the reasons why.

Major contributors to this report were Brian Krawiecki, CIA; Nicholas Granwehr; Brindetta Cook; and Chelsey Fiorini.

We wish to thank the management and staff of OMH and ILI for the courtesies and cooperation extended to our auditors during this audit.

Very truly yours,

Sharon Salembier, CPA, CFE  
Audit Manager

cc: Christopher Tavella, Ph.D.  
Wendy Fox  
Tara Pratico  
Mark Noordsy

# Agency Comments



ANDREW M. CUOMO  
Governor

ANN MARIE T. SULLIVAN, M.D.  
Commissioner

CHRISTOPHER TAVELLA, Ph.D.  
Executive Deputy Commissioner

August 24, 2020

Sharon Salembier, CPA, CFE  
Audit Manager  
Office of the State Comptroller  
Division of State Government Accountability  
110 State Street – 11<sup>th</sup> Floor  
Albany, NY 12236-0001

Dear Ms. Salembier:

The Office of Mental Health (OMH) has reviewed the Office of the State Comptroller's (OSC's) draft audit report entitled, "*Oversight of Provider Consolidated Fiscal Reports – Independent Living, Inc.*" (2019-S-60). Our comments and response to the recommendation contained in OSC's report are enclosed.

OMH appreciates OSC's efforts to recommend improvements in our operations and thanks you and your staff for the cooperation extended during the engagement.

Sincerely,

A handwritten signature in blue ink, appearing to read "C. Tavella". The signature is fluid and cursive.

Christopher Tavella, Ph.D.  
Executive Deputy Commissioner

Enclosure

**Office of Mental Health Response to the  
Office of the State Comptroller's Draft Audit Report 2019-S-60 entitled  
"Oversight of Provider Consolidated Fiscal Reports – Independent Living, Inc."**

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**I. OMH Comments to OSC Audit Findings**

***OMH Does Not Perform Detailed Audits or Field Reviews of Provider CFR's:*** OSC states on page 2 within the "results of the audit" that "OMH generally does not perform detailed audits or field reviews of providers' CFR information. As of June 2020, OMH's desk review of ILI's 2018 CFR was still in progress and a field audit had not been completed. We reviewed certain costs reported by ILI on its CFR for the year ended December 31, 2018 and identified a small amount of costs – totaling \$1,071 – for an employee appreciation luncheon, which is an ineligible cost according to the CFR Manual."

**OMH Comments:** As noted, OMH utilizes desk reviews to obtain assurance of the validity of information reported by over 700 providers. These desk reviews include a combination of computer-assisted auditing techniques, a manual review of the CFR, and a standardized checklist. The checklist is completed by the reviewer and, in addition to auditing the CFR schedules, reviewers are also required to examine a provider's certified financial statements. Financial statements are reviewed for several critical areas to detect risk or inappropriate transactions including, but not limited to, prior period adjustments, ongoing concerns relating to financial viability, and related-party transactions. The reviewer is required to compare CFR data to certain financial statement information to ensure consistency. This process allows the CFR Unit, which has a limited number of staff, to conduct comprehensive reviews of CFRs and identify risks for further audits as well as facilitate the correction of financial reports submitted to OMH.

Once a desk review is complete, CFR Unit staff issue a desk review letter to those providers for which there are follow-up questions on the data reported, or where errors have been identified requiring correction and resubmission. These letters routinely request supporting general ledger (GL) detail for expenses reported on a CFR, which is reviewed for (and often identifies) non-allowable expenses<sup>1</sup>. In instances where non-allowable expenses were inaccurately reported on the CFR, a follow-up desk review letter is issued to the provider instructing them to appropriately report disallowed expenses on the non-allowable lines of the relevant CFR schedules, and to upload a revised CFR.

OSC accurately noted that all providers submitting a **full** CFR are required to submit an independent CPA certification as part of their submission (i.e., schedule CFR-ii/ia). On this schedule, the CPA certifies that an examination of the CFR was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants (AICPA). The framework for these examinations is outlined in Appendix AA of the CFR Manual.

While the CFR unit does not conduct field reviews, OMH's Bureau of Audit conducts risk-based audits of OMH facilities and Central Office operations, as well as local providers of mental health services. During reviews of OMH network providers, the Bureau of Audit ensures that funds have been spent in accordance with Mental Hygiene Law and other relevant guidelines

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<sup>1</sup> Non-allowable expenses are detailed in Appendix X of the CFR Manual.

(including the CFR manual). The Bureau of Audit is made up of eight field auditors with those resources generally split between internal and external audits. In 2018 (the same period that OSC reviewed for ILI), the OMH Bureau of Audit completed reviews of four local providers. Those reviews included an in-depth look at agency purchases, including the review of invoices and receipts. Two of the four audits identified unallowable costs included on the CFR and resulted in recommendations that directed the providers to submit amended reports.

Lastly, once this audit is finalized, OMH will follow-up with ILI regarding the \$1,071 for an ineligible employee luncheon and ensure that it is re-characterized as a non-allowable expense on the CFR-3. OMH will work with the agency to return any State funds that may have supported this activity.

## II. **OMH's Response to OSC's Recommendation**

***OSC Recommendation:*** Evaluate the potential for conducting field audits, on a risk basis, to more fully assess provider compliance with CFR Manual requirements for reporting, calculating, and documenting of costs on their CFRs.

***OMH Response:*** OMH agrees with this recommendation but notes that OMH's CFR Unit has limited capacity to conduct field audits for reasons described above, and the Bureau of Audit already conducts risk-based field audits that ensure funds have been spent in accordance with Mental Hygiene Law and other relevant guidelines (including the CFR manual).

To continue to improve provider compliance, OMH:

- has increased the number of CFR-related training presentations to the provider community;
- is developing recorded CFR trainings to allow providers and CPAs to have 24/7 access; and,
- is in the process of re-writing the CFR reporting software to include additional automated checks for identifying errors and will require providers to fix these errors prior to submission, resulting in more accurate reports.

OMH continuously looks for opportunities to improve processes and will consider other methods of strengthening provider compliance with CFR Manual requirements within our existing resources.

Thank you for the opportunity to comment.