



**OASAS**

NEW YORK STATE  
OFFICE OF ALCOHOLISM & SUBSTANCE ABUSE SERVICES  
Improving Lives. *Addiction Services for Prevention, Treatment, Recovery*

GOVERNOR  
David A. Paterson

COMMISSIONER  
Karen M. Carpenter-Palumbo

August 4, 2010

Frank Patone, CPA  
Audit Director  
NYS Office of the State Comptroller  
Division of State Government Accountability  
123 William Street – 21<sup>st</sup> Floor  
New York, NY 10038

Re: Final Audit Report on Chemical  
Dependency Program Payments to Selected  
Contractors (Report 2007-S-60)

Dear Mr. Patone:

As requested in your May 6, 2010 transmittal to Commissioner Karen M. Carpenter Palumbo, this letter is to advise you of the steps taken by the NYS Office of Alcoholism and Substance Abuse Services (OASAS) to implement the seven (7) recommendations contained in the NYS Office of the State Comptroller's (OSC) Final Audit Report (Report 2007-S-60) entitled, "Chemical Dependency Program Payments to Selected Contractors."

The enclosed "Summary of Action Taken, Re: OSC Audit Report 2007-S-60" provides an update on OASAS' actions with respect to Palladia, Inc. and Queens Child Guidance Center. Should you have any questions or require additional information, please feel free to contact my office.

Thank you for the opportunity to report on progress made and for OSC's consideration of comments provided by OASAS both during and subsequent to the audit.

Sincerely,

Robert A. Kent  
General Counsel

Enclosure

cc w/enc.: Karen M. Carpenter-Palumbo  
Thomas Lukacs, Division of the Budget

## Summary of Action Taken, Re: OSC Audit Report 2007-S-60

### Recommendations:

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.**

OASAS initiated on-site fiscal audits of both Palladia and Queens Child Guidance Center in 2009. While field work has since been completed, audit reports for both programs are now being prepared and will be formally issued by October 1, 2010. When issued, the audit reports will identify specific recommended recoveries for charges that could not be supported or documented as program-related in the 2005-06 contract year.

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.**

OASAS agrees that contractors must be held accountable and required to comply with all statutory and contractual requirements. OASAS has primarily relied upon its on-site fiscal review process and protocols to assure fiscal monitoring coverage of the largest possible portion of its provider system. However, a fiscal review does not constitute a full audit with the capacity to examine compliance with all requirements. OASAS acknowledges the importance and value of in-depth fiscal audits and has, in the last 18 months undertaken four concurrent on-site fiscal audits of contractors flagged by OSC (including Palladia and Queens Child Guidance Center). Going forward, OASAS will look to increase the number of fiscal audits conducted each year. However, we will need to balance our fiscal audit workload with our fiscal review responsibilities to ensure adequate fiscal oversight of the entire system. Since OASAS audit resources are limited, future audit activity will be driven by a risk-assessment process that identifies priority programs for audits.

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

As indicated in the response to Recommendation #1, OASAS has undertaken follow-up audits at both Palladia and Queens Child Guidance Center for the 2005-06 contract year. For any substantial recoveries that are identified and recommended for 2005-06, OASAS will subsequently examine comparable charges in the periods prior and subsequent to 2005-06 to determine if similar recoveries are warranted.

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

As indicated in the response to Recommendation #2, OASAS is looking to strengthen its audit capacity by expanding the number of full audits conducted. In March 2010,

OASAS released new *Administrative and Fiscal Guidelines for OASAS-Funded Providers* to help ensure a reasonable standard of accountability and establish a more viable basis for assessing provider compliance with contractual and statutory requirements. These Guidelines, which are now posted on the OASAS website, went into effect on July 1, 2010. On June 21, 2010, OASAS also posted a *Fiscal Operations Self-Assessment Questionnaire* on its website for use by all service providers as a self-assessment tool to help them evaluate their compliance with OASAS' fiscal standards. OASAS will eventually convert the self-assessment questionnaire to an on-line "fillable" format so that it can collect provider-specific fiscal data for purposes of updating its risk assessment process. Plans are also underway to augment our on-site fiscal monitoring activities with a risk-driven desk audit function. Through these expanded activities, OASAS expects to significantly increase its capacity to monitor compliance with the above-referenced guidance documents.

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

With the recent release of the *Administrative and Fiscal Guidelines for OASAS-Funded Providers*, OASAS has been updating its fiscal review instrument to coincide with the new/updated standards that are now in effect. It will also expand upon the guidance provided to fiscal reviewers relative to identifying providers that are noncompliant with CFR requirements as they pertain to the proper allocation of expenses. All of these changes and updates to the fiscal review instrument will be completed by October 1, 2010. In the interim, staff of the OASAS Fiscal Audit and Review Unit have been advised of the expectation that they need to validate and document the basis for allocated expenditures as reasonable and appropriate during the course of all fiscal reviews.

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

OASAS revised its 5-year contracts to make them more consistent with OSC's standard multi-year agreements. These contracts include a new Appendix A-1 with agency specific clauses, new Appendix C (payment and reporting schedule) detailing required actions prior to payment processing and a revised Appendix O (contract certification) requiring an annual review of a contractors performance levels.

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

Since 2006, the Queens Child Guidance Center has been funded through the New York City Department of Health and Mental Hygiene (DOHMH). While OASAS no longer has a direct contractual relationship with the provider, we work closely with DOHMH and Queens Child Guidance Center to develop service performance targets which are regularly monitored by both agencies during the course of the funding year. OASAS conducted an interim on-site review of Queens Child Guidance Center (now

known as Child Center of New York) on March 24, 2010. The review focused on services provided and how the provider performed in relation to its workscope targets. It was determined that the Child Center of New York is providing appropriately targeted services and that it will likely exceed its unit of service goal for the 2009-10 fiscal year. Reviewers also noted that the program is on track to meet almost all other performance targets.