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STATE OF NEW YORK
OFFICE OF THE STATE COMPTROLLER

December 14, 2001

Mr. James L. Stone
Commissioner
Office of Mental Health
44 Holland Avenue
Albany, NY 12229-0001

Re: Odyssey House, Contract C-005232
Report 2000-R-4

Dear Mr. Stone:

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 audited Odyssey House's compliance with the requirements of Contract C-005232 as well as the Office of Mental Health's (OMH) administration of this contract. Our audit covered the period July 1, 1998 through June 30, 2000.

A. Background

OMH provides treatment and support services, such as vocational training, recreational activities, room and board, and clinical services, to assist the mentally ill in returning to community life. OMH contracts with many not-for-profit entities to assist it in providing these services.

Odyssey House, headquartered in New York City, is a social and community service organization with extensive experience in addressing chemical dependency and providing residential centers for various State-funded programs. The program that we audited, known as the Residence Program (Program), operates a 60-bed facility for adults over 18 years of age, and provides long-term residential care and specialized treatment services to mentally ill substance abusers who have been certified homeless. The contract requires Odyssey House to provide housing for 60 residents, including bed space, three meals per day, and therapeutic services. The Program is group oriented and focuses on strengthening self-esteem by engaging the residents in taking responsibility for their own treatment, the therapeutic community and the environment in which they live (e.g. working with the kitchen staff, the housekeeping staff, and maintenance staff in running the facility and keeping it a safe and secure environment).

Program residents qualify for either Supplemental Security Income or Home Relief, which provide approximately $500,000 annually for the Program. Any remaining Program expenses, up to approximately $1.5 million per year, are then covered by the OMH contract. Contract expenditures for the period July 1, 1998 through June 30, 2000 totaled $3.1 million.

B. Audit Scope, Objectives, and Methodology

We audited Odyssey House's compliance with the requirements of Contract C-005232, as well as OMH's administration of this contract, for the period July 1, 1998 through June 30, 2000. The objectives of our financial-related and performance audit were to determine whether the contracted services were provided in compliance with contract terms, and whether contract-related billings were properly supported and related to the Program. In addition, we verified that all revenues were properly accounted for. We also assessed OMH's fiscal and programmatic oversight of the contract.

To achieve these objectives, we made physical observations of the Program's facility, interviewed relevant OMH and Odyssey House officials, and reviewed selected Odyssey House books, records, files, and other contract-related documents. We also selected a sample of expenditures and their supporting documentation. In addition, we reviewed available OMH program evaluation reports.

We conducted our audit in accordance with generally accepted government auditing standards. Such standards require that we plan and perform our audit to adequately assess those operations of Odyssey House and OMH that are included in our audit scope. Further, these standards require that we understand the internal control structure and compliance with those laws, rules and regulations that are relevant to the operations which are included in our audit scope. An audit includes examining, on a test basis, evidence supporting transactions recorded in the accounting and operating records and applying such other auditing procedures as we consider necessary in the circumstances. An audit also includes assessing the estimates, judgments, and decisions made by management. We believe that our audit provides a reasonable basis for our findings, conclusions and recommendations.

We use a risk-based approach to select activities for audit. We therefore focus our audit efforts on those activities we have identified through a preliminary survey as having the greatest probability for needing improvement. Consequently, by design, we use finite audit resources to identify where and how improvements can be made. We devote little audit effort to reviewing operations that may be relatively efficient or effective. This report, therefore, highlights those areas needing improvement.

C. Results of Audit

We found that, in general, Odyssey House is complying with contract requirements, including the maintenance of proper financial records. However, as shown in Exhibit A, we are recommending that OMH recover $40,352 of Odyssey's claimed expenses because certain available moneys were not credited to the Program, as intended. In addition, we identified several areas that OMH and Odyssey House officials need to address to enhance contract-related operations.

1. Review of Financial Operations

We reviewed Program-related revenues and expenses for the two-year period July 1, 1998 through June 30, 2000. We found that the Program was not receiving its appropriate share of unrestricted donations raised by the Odyssey House Foundation. In addition, we found that employees eat meals at the facility with the residents, but are neither charged nor taxed on this fringe benefit in accordance with the Federal tax code. We also found the need for improved internal controls relating to the separation of employee duties, and Program equipment.

a. Allocation of Unrestricted Revenues

During the two-year period ended June 30, 2000, Odyssey House received approximately $4.2 million in funding for the operation of the Program. This included more than $900,000 from Supplemental Security Income, $179,000 from Home Relief and $64,000 from other sources such as interest and donations. The remaining $3.1 million was provided by the State through OMH.

We verified that the above-noted Program revenues were properly accounted for. We also verified that all State payments were deposited to the Program accounts and that interest earned on these accounts was credited to the Program.

We note, however, that Odyssey House has established a foundation, known as the "Odyssey House Foundation," (Foundation) that performs fund raising activities to promote the work of Odyssey House, and encourage donations for the benefit of Odyssey House programs. Funds received by the Foundation may be either restricted or unrestricted. Restricted donations are made for the express use of the programs and/or purposes specified by the donor. Unrestricted donations are used first to cover the cost of Foundation operations, with any remaining funds available for distribution to the programs at the direction of the Foundation's Board of Directors.

During the two fiscal years ended September 30, 1999, the Foundation reported receiving $197,500 and $117,500, respectively, in unrestricted funding. Since the Program contract is classified by OMH and Odyssey House on the contractor's funding application as a deficit-funded contract, it is intended that all available Program moneys should be credited against program expenses prior to determining the necessary amount of State funding. Accordingly, a reasonable portion of the unrestricted revenues raised by the Foundation should be credited to the Program. However, we found that the Program was not credited with any of these unrestricted revenues to reduce State funding, nor were the Foundation's unrestricted revenues reported on the funding application. Had the unrestricted revenues available during our audit period been distributed to the Program using the same methodology Odyssey House uses for distributing organization overhead costs (i.e., proportionately among the various programs on the basis of each program's expenses), the Program would have been credited with $40,352 in additional revenue, thus reducing the State's funding by the same amount.

Odyssey House officials contend that the Foundation is an independent organization, and that since the Foundation's Board of Directors did not authorize the distribution of unrestricted revenues, no additional funding should be allocated to the Program. OMH officials indicated that they would prefer that, if additional revenues are available, they should be used to enhance the Program rather than reduce the amount of State funding for the Program. We believe that OMH's response is contrary to the intent of deficit funding. Further, we noted that these revenues were not used to enhance the Program. Instead, they were allocated, for the most part, to other Odyssey House programs.

b. Program Expenditures

Based on our review of a sample of 70 payroll transactions totaling $59,777, and 133 other-than-personal service transactions totaling $316,390 that were charged to the contract during the audit period, we determined that, in general, these expenditures had been correctly charged to the Program and, where applicable, appropriate purchasing procedures had been followed, with the following exception.

According to the Federal tax code, meals provided to employees by their employer free of charge are taxable to the employees unless they are provided on the business premises and are for the convenience of the employer. During our site visits to the Program facility, we observed, and later confirmed, that Program staff received free meals at the facility cafeteria during their assigned shifts. Considering the cost per meal, based on total food purchases for the period of July 1, 1998 to June 30, 1999, and the number of total meals provided during this period, this unreported fringe benefit costs the Program $13,590 annually. There is no provision for this cost in the Program's budget, nor is eating at the facility a job requirement for staff. Further, the approximate value of these free meals is not reported to employees on their year-end payroll summaries (W-2s) for income tax purposes, as required by the Federal tax code.

When we brought this issue to the attention of Odyssey House officials, they told us that they do not discourage employees from eating meals at the facility with the residents. They indicated that this is done as part of the treatment program to encourage interaction among the residents and staff. They indicated that it shows the residents that the staff is willing to eat with them and be a part of the therapeutic community. They state that the sharing of meals with the residents supports the building of trust and culture within the community.

We believe that if this practice is as important to Program outcomes as officials stated, then it should become a formal policy and included in the employees' job specifications. Otherwise, employees should be required to pay for their meals, or be taxed on their approximate value. Officials agreed to revisit the Federal tax code and individual job specifications to assess whether employee job specifications need to be revised, whether a fee should be charged, or whether employees should be taxed thereon.

c. Internal Controls

Maintaining proper internal controls is a major part of managing an organization, and comprises the plans, methods, and procedures used to meet an organization's missions, goals, and objectives. Internal controls also serve as the first line of defense in safeguarding assets, and preventing and detecting errors and fraud. Good internal control requires a reasonable segregation of duties between functions to prevent one person from having total control over any one financial activity (e.g., purchasing), and proper control over all assets, including equipment. We found the need for improvement in these areas.

We found that the duties of the facility manager have not been adequately separated to ensure such accountability. The job description for the position indicates that the facility manager's major function is to supervise facility operations and staff. For example, she is responsible for overseeing overall care and maintenance of the facility and for ensuring compliance with safety and physical plant standards. However, we found that the facility manager performs several tasks that should be segregated to protect Program assets. For example, the facility manager has responsibility for ordering, receiving, and maintaining the inventory for residence supplies and equipment; has custody of petty cash funds and records; and is the custodian of client funds. Having all of these responsibilities concentrated in a single employee may result in the undetected misuse of Program funds and misappropriation of Program assets.

In addition, we found that Odyssey House does not have an updated inventory listing for Program equipment assigned to the central office nor was the equipment ever assigned an identification number. The purpose of a comprehensive inventory system is to readily account for all purchased equipment items and to help protect against their loss and misuse. Although we were able to locate the Program items purchased for central office use, they were not adequately protected from unauthorized use or theft. We further note that Odyssey House does not have a staff of internal auditors and does not routinely test to ensure that its assets are safeguarded. We believe this is a contributing factor in Odyssey House officials not having identified these deficiencies on their own. After discussing these issues with them, OMH and Odyssey House officials agreed to revisit equipment controls and to enhance them as necessary.

2. Program Compliance

Our physical observations of the Program facility, residents, and relevant Program records leads us to conclude that the basic contracted services were being provided. However, we identified the following opportunity to enhance Program services for those Program residents whose length of stay extends beyond the suggested residence period.

Program expectations, as stated in the contract, are that residents should be able to reenter their respective communities in an 18- to 24-month time frame. Adhering to this time frame will make room available for other persons in need of these specialized services to enter the Program and allow for maximum use of facilities. However, barring exceptional circumstances, the residents cannot be discharged upon reaching the 18- to 24-month time frame if they are unable or not willing to relocate to alternative housing.

There were 59 residents in the Program during our fieldwork. We reviewed the admission dates for each resident and found that 27 of them (46%) had been in the Program ranging from two, to more than six, years, as follows:

Range of Months of Residency	Number of Residents	Percentage of Residents
25 to 36	15	25%
37 to 48	8	14
49 to 60	3	5
61 to 72	0	0
73 to 78	1	2
Total	27	46%

We asked Odyssey House officials the reasons why these residents are staying beyond 24 months and whether they had plans to address this issue. In response to our inquiry, Odyssey House officials indicated that 11 of the long-term residents had completed their treatment and had graduated, but remain at the facility because of difficulties in finding appropriate housing. These residents had been rejected from existing housing programs for such reasons as, long waiting lists, their history of substance abuse, their severe and persistent mental illness, and their low level of functioning. With regard to the remaining long-term residents, Odyssey House officials indicated that serious consideration would be given to a revision of their relocation goals.

Recommendations

1. *Recover the $40,352 in unrestricted undistributed revenues from the Odyssey House Foundation.*

2. *Specify in the employee job descriptions and policy manuals the need and circumstances under which employees may eat free meals with the residents.*

3. *Segregate the incompatible duties of the facility manager in accordance with proper internal control requirements.*

4. *Ensure that all Program assets are safeguarded against theft and misuse.*

5. *Maintain up-to-date equipment inventory listings and identify all equipment with inventory tags.*

6. *Regularly evaluate the reasons why residents are staying beyond the 24-month Program expectation and, as appropriate, take steps either to revise their goals or to help relocate these residents.*

We provided a draft copy of this report to OMH and Odyssey House officials for their review and comment. Their comments were considered in preparing this report and are included as Appendix A.

OMH generally concurred with our conclusions and recommendations, and indicated steps it and Odyssey House have taken to implement five of the six recommendations. OMH and Odyssey do not agree that any monies should be recovered from the Odyssey House Foundation. However, OMH indicated that it encourages providers to use such funds to enhance existing programs or offer additional services. As our audit notes, to date, these funds have not been used to enhance the OMH Program; therefore, we encourage OMH to work with Odyssey House to apply such funding for the benefit of its programs.

Within 90 days after 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 recommendations contained herein, and where recommendations were not implemented, the reasons therefor.

Major contributors to this report were Frank Patone, Aaron Fruchter, Peter Schmidt, Robert Tabi, Adrian Wiseman, Altagracia Rodriquez, Hector Mercedes and Paul Bachman.

We wish to thank the management and staff of the Office of Mental Health and Odyssey House for the courtesies and cooperation extended to our auditors during this audit.

Very truly yours,

William P. Challice
Audit Director

cc: Peter Provet
Deirdre A. Taylor

EXHIBIT A

SUMMARY OF RECOVERABLE FUNDS
OMH: CONTRACT C-005232
ODYSSEY HOUSE, INC.
FOR THE PERIOD JULY 1, 1998 TO JUNE 30, 2000

Total Program Expenses	$4,247,866
Less: Federal, New York City & Other Funding	1,169,337
Claimed Expenses	$3,078,529
Amount Recoverable	40,352 *
State Funding	$3,038,177

* Represents allocation to Program of unrestricted revenues of the Odyssey House Foundation, Inc. (see pages 3 & 4).

New York State
Office of Mental Health

James L. Stone, MSW, CSW, Commissioner

44 Holland Avenue
Albany, New York 12229

November 27, 2001

William P. Challice
Audit Director
Management Audit, 21st Floor
Office of the State Comptroller
123 William Street
New York, NY 10038

Dear Mr. Challice:

The Office of Mental Health and the Odyssey House have reviewed draft audit report 2000-R-4 entitled, Odyssey House, Contract C-005232. Our comments to the findings and recommendations contained in the report are enclosed.

The Office of Mental Health appreciates the Office of the State Comptroller's efforts to recommend improvements to our local provider operations.

Many thanks for your continued help and cooperation.

Sincerely yours,

James L. Stone

James L. Stone

Enclosure
cc: P. Provet, Ph.D.

Appendix A

OFFICE OF MENTAL HEALTH
RESPONSE TO OFFICE OF THE STATE COMPTROLLER'S
DRAFT AUDIT REPORT 2000-R-4
ODYSSEY HOUSE, CONTRACT C-005232

OVERALL OMH COMMENTS

The Office of Mental Health is pleased the Office of the State Comptroller found that, in general, Odyssey House is in compliance with contract requirements. However, OMH does not agree with OSC's Recommendation No. 1 and the related observation concerning unrestricted undistributed donations. OMH does not require not-for-profit providers to offset unrestricted undistributed donations (revenues) against expenditures. OMH encourages providers to use such funds to enhance existing programs or offer additional services. Further, the Health Care Financing Administration Provider Reimbursement Manual supports the Odyssey House's treatment of these revenues.

Regarding the OSC observation related to employees eating meals with residents, it should be noted that about 45 percent of Odyssey House direct care mental health staff eat with residents. Eating meals together is part of a therapeutic treatment model which enhances interaction between clients and staff and helps build trust. Such interaction is most important for individuals with serious and persistent mental illness who are homeless. Therefore, staff should not be charged for the meal or be required to count that as income for tax purposes. Further, based on a review of the pertinent Internal Revenue Service regulations and guidelines, it is our opinion that Odyssey House staff do not have to repay the provider for these meals or report the value of such meals to the IRS. Both conditions cited by IRS are clearly met by these employees (i.e., meals are: furnished on the employer's business premises and are provided for the convenience of the employer).

OMH Comments to Specific OSC Recommendations

OSC Recommendation No. 1

Recover the $40,352 in unrestricted undistributed revenues from the Odyssey House Foundation.

OMH Response

OMH and Odyssey House disagree with this OSC recommendation. There is no OMH requirement that providers or their foundations must offset unrestricted donations against costs in determining eligible expenditures. While procedures for the Consoldiated Fiscal Report are silent on this matter, in the absence of other criteria, OMH uses the HCFA Provider Reimbursement Manual. Section 604 of this Manual states that: *"Unrestricted contributions are not deducted from costs in computing allowable costs. These funds are considered the property of the provider to be used as it deems appropriate. These funds generally give the provider a means of recovering costs which are not otherwise recoverable, such as costs related to bad debts of patients not covered by Medicare."* OMH prefers that such funds be used to expand or maintain mental health services to residents.

Odyssey House officials responded that they did not believe they should have to return any monies to OMH, since Odyssey Foundation of NY did not distribute unrestricted funds to any of their programs during the period audited.

In conclusion, OMH and the Odyssey House are in agreement that ***no*** repayment or recovery is required for the unrestricted undistributed revenues from Odyssey Foundation of NY.

OSC Recommendation No. 2

Specify in the employee job descriptions and policy manuals the need and circumstances under which employees may eat free meals with the residents.

OMH Response

Although OMH does not completely agree with this recommendation or the OSC supporting arguments, as previously stated in "Overall OMH Comments," Odyssey House officials indicated that they have implemented the recommendation.

OSC Recommendation No. 3

Segregate the incompatible duties of the facility manager in accordance with proper internal control requirements.

OMH Response

Odyssey House officials stated that this recommendation has been implemented. For example, duties were appropriately segregated to ensure that adequate internal controls are maintained. Several duties have been reassigned to staff in other departments and the finance division is monitoring purchasing and receiving procedures.

OSC Recommendation No. 4

Ensure that all program assets are safeguarded against theft and abuse.

OSC Recommendation No. 5

Maintain up-to-date equipment inventory listings and identify all equipment with inventory tags.

OMH Response to OSC Recommendation Nos. 4 and 5

Odyssey House officials informed OMH that accounting staff have now been assigned to perform internal audit functions to ensure that program assets are safeguarded against theft and abuse.

Regarding equipment inventory, Odyssey House officials noted that they do maintain inventory controls over equipment and most of the central office location items were tagged at the time of the audit. The majority of the equipment is about 15 years old and past expected useful life. Further, the equipment inventory listing has been updated and all equipment items are now tagged.

OSC Recommendation No. 6

Regularly evaluate the reasons why residents are staying beyond the 24-month program expectation and, as appropriate, take steps either to revise their goals or to help relocate these residents.

OMH Response

OMH and the Odyssey House are working together to ensure that resident stays are kept more in-line with program and resident goals, where feasible. Odyssey House believes that its residential program is very effective. They have successfully graduated and relocated 16 residents (25 percent of their most challenging), which is evidence of the program's effectiveness. Further, all 16 graduates have been placed in vocational training, GED counseling, or college bound programs and outpatient mental health programs.

Odyssey House Comments:

Odyssey House is regularly evaluating the reasons residents are staying beyond the 24-month program expectation, and has taken appropriate steps to relocate some of the clients. Odyssey House hired a social worker to serve as a discharge coordinator and is developing relationships with a number of new referral institutions, primarily housing. As a result, out of the total residents who stayed beyond 24 months in the program, approximately 11 percent have been relocated. Odyssey House is committed to continue its policy to relocate all the remaining residents through extensive outreach and relocation strategy.