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STATE OF NEW YORK
OFFICE OF THE STATE COMPTROLLER

January 6, 2004

Antonia C. Novello, M.D., M.P.H.
Commissioner
NYS Department of Health
Empire State Plaza, Corning Tower
Albany, NY 12237

Re: Administration of Grant CACFP3525
With the Sunflower School
Report 2003-R-2

Dear Dr. Novello:

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 reviewed the administration of funds provided to the Sunflower School through the New York State Department of Health (Department).

Background

The Sunflower School (Sunflower), previously located at 475 N. Brookside Avenue, Freeport, NY, provided day care and after-school services for the residents of southwest Nassau County (County). To provide these services, it received approximately \$200,000 in grants that were financed by Federal funds and made available by grants from the New York State Legislature, as well as additional funds from the Federal and County governments. Sunflower's efforts were intended to address the emotional, psychological, and physical well-being of the children it served, to provide them with meals, and to teach them basic educational skills. The grant monies provided through the Department were specifically used to fund the Child and Adult Care Food Program (Program). According to Department policy, Department program staff are responsible for monitoring contractor performance to help ensure the provision of Program deliverables and compliance with applicable Program regulations.

In May 2000, newspaper articles reported that an investigation of Sunflower by the Nassau County District Attorney's Office was underway. The investigation was the result of an audit by the Nassau County Comptroller's Office, which found that Sunflower spent approximately \$350,000 of County funds on questionable items, including health care for non-employees, parties and clothing for employees, and vacations for Sunflower officials. The audit also noted bid-rigging of subcontracts and inconsistencies in the overhead rates charged to its various funding sources. The Nassau County Comptroller referred the audit findings for investigative follow-up to the Office of

the Nassau County District Attorney, which told us that two Sunflower officials had been indicted and charged with criminal embezzlement.

According to the Nassau County Comptroller's audit, Sunflower School management provided incorrect information to the Nassau County Department of Social Services that was to be used for the determination of day care rates to be paid to Sunflower. The rates were artificially high because numerous expenditures had been included in the rate calculation that were either personal or related to another agency being serviced by Sunflower. When the Sunflower School's day care rate was re-calculated, Sunflower owed Nassau County \$481,680 for the period October 1997 through September 1999. In addition, reviews performed by the Department in 1998 and 2001 cited issues related to Program enrollment and food delivery.

Review Scope and Objectives

Initially, we had planned to perform an audit of the Department's administration of the Program, covering the period April 1, 1997 through December 31, 2002. The objectives of our audit were to determine whether: contractor billings were supported and appropriate; contracted services were provided; and Department staff monitored contract operations effectively. However, when we initiated our audit, we learned that the Sunflower School had closed on September 30, 2002, and the meals Program at Sunflower had not been renewed. As a result, we performed additional inquiries and review steps to determine whether sufficient records and documents were available for us to continue our audit. After meeting with Department officials, we determined that two of the former Sunflower school directors (not subjects of the noted investigations) now ran a new program, and had maintained several boxes of Sunflower School records that we could review at the new program location.

However, upon such review, we determined that insufficient records were available for us to form an opinion on contractor deliverables and related billings. We also determined from a review of available bank records that no assets of Sunflower were available were we to seek recovery of any inappropriate Program-related payments. As such, we were unable to do the audit we initially sought to do. Therefore, we did a limited review of the effectiveness of the Department's oversight of the Sunflower School's Child and Adult Care Food Program.

Unlike an audit, a review includes limited testing and verification of information and records. To accomplish our objective, we interviewed former Sunflower School directors, Department officials, and examined available Program monitoring-related records.

Results of Review

We asked Department officials about their general practice of reviewing Program-related expenses and the frequency of such reviews, as well as the reasons why it didn't detect Sunflower's financial problems as they were developing. Department officials informed us that, to review contract compliance, Department representatives visit sites that receive such funding once every three years. However, Program monitoring guidelines focus on Program performance and regulatory compliance issues as opposed to reviews of financial transactions.

The Department provided us with the review results of its Child and Adult Care Food Program conducted at the Sunflower School on June 23, 1998, citing three programmatic and related

fiscal issues. As a result, the Department requested a corrective action plan from the Sunflower School. However, we found no support to indicate that the Department obtained or followed up on the requested corrective action plan.

After the Nassau County Comptroller released a report about the Program on January 26, 2000, followed by an article on the same subject in the New York Times, the Department conducted a second review in May 2001, or nearly one and one-half years after Sunflower's problems became public. This review found that income eligibility applications did not support the claim for reimbursement; itemized receipts were not on file for snack items purchased; supper meals did not meet minimum required components for children age 6 to 12 years old; and the vended meals were not at proper temperatures to prevent spoilage and food-borne illness. Once again, Sunflower was required to complete and submit a corrective action plan, which this time it did.

We found that the Department did not follow-up on its 1998 review, or intervene in a timely manner when problems at the Sunflower School became public in 2000, which may have prevented the ultimate closure of the Program and protected the related assets. Consequently, the Department's monitoring with respect to the Sunflower School was not sufficient to identify, early on, the significant underlying problems at Sunflower which ultimately resulted in its closure. We believe such monitoring of providers is necessary to adequately assess program performance and associated fiscal concerns in a timely manner.

Recommendations

1. *Make sure that corrective action plans resulting from reviews of Department-administered programs are obtained, and that staff perform monitoring sufficient to follow up on plan implementation.*
2. *Consider developing enhanced monitoring plans for programs where potential problems are identified.*

We provided Department officials with a draft copy of this report. Their comments have been considered in preparing this report, and are included as Appendix A. The Department responded that, for this Program, its oversight responsibilities were limited to a triennial review, which it met. Further, the findings identified during those reviews did not raise any particular concerns regarding the misappropriation of assets or the lack of Program performance. Although the Department's reviews did not identify indicators of underlying serious fiscal concerns, information was brought to its attention that potential problems existed. We believe this information should have prompted a more timely response on the part of the Department in the form of enhanced monitoring. Certain text and the related recommendations in the draft report were revised in the final report to address comments made by the Department in its response.

We wish to thank the management and staff of the Department and the former Sunflower School for the courtesies and cooperation extended to our auditors during this review.

Major contributors to this review were Frank Patone, Barry Mordowitz and Roseline David.

Within 90 days after final release of this report, we request the Commissioner of the Department of Health to 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.

Very truly yours,

William P. Challice
Audit Director

cc: Thomas Howe, DOH
Deirdre A. Taylor, Division of the Budget