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STATE OF NEW YORK  
OFFICE OF THE STATE COMPTROLLER

July 19, 2006

Sharon E. Carpinello, R.N., Ph. D  
Commissioner  
New York State Office of Mental Health  
44 Holland Avenue  
Albany, NY 12229

Re: Report 2006-F-10

Dear Dr. Carpinello:

Pursuant to the State Comptroller's authority as set forth in Article 5, 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 Office of Mental Health officials to implement the recommendations contained in our audit report *Banana Kelly Community Improvement Corporation: Contract C005265* (Report 2003-R-3).

**Background, Scope and Objectives**

The Office of Mental Health (OMH) provides health, education and residential facilities for the therapeutic education guidance and training of persons with psychiatric disabilities. Treatment and support services include vocational training, drug therapy, recreational activity, room, board and clinical services. OMH contracts with numerous not-for-profit organizations to deliver services to clients. One of these contractors, the Banana Kelly Community Improvement Corporation (Banana Kelly), provided such services to Bronx-based OMH clients via the FRIENDS (Families Reaching In Ever New Directions) Program (Contract C005265).

The FRIENDS Program required Banana Kelly to provide two distinct service components, Family Support and Youth Leadership, to eligible participants in the Bronx' Mott Haven Community. Family Support was to provide an array of services to 33 Mott Haven families annually whose children were determined to have serious emotional disturbances. The Youth Leadership service component was to provide at least 15 emotionally disturbed youth per year with an intensive training program to improve their leadership skills, personal development and work-readiness.

Banana Kelly program staffing comprised 8, 7 and 6 employees, respectively, during contract years 1998-99, 1999-2000 and 2000-2001. Banana Kelly was reimbursed \$753,740 (excluding a \$10,005 disallowance by OMH auditors) for FRIENDS Program expenses incurred during the three-year contract period.

During the second contract year (1999-2000), OMH also contracted with Friends, Inc., another Bronx-based community oriented not-for-profit organization, to monitor Banana Kelly's fiscal and operational performance unrelated to the FRIENDS Program Youth Leadership and Family Support components. As problems began to surface with Banana Kelly's overall operations, OMH expanded Friends, Inc.'s oversight responsibilities to include monitoring Banana Kelly's overall day-to-day operations. As a result of its own observations of Program performance, OMH did not renew its contract with Banana Kelly. Instead, they contracted directly with Friends, Inc. to assume the FRIENDS Program services previously offered by Banana Kelly. Around this time period, the New York State Attorney General's Office investigated Banana Kelly operations resulting in the removal of Banana Kelly's senior management and Board of Directors. The Attorney General found that Banana Kelly officials had inappropriately diverted funds for their personal use causing the entity to suffer financial losses.

Our initial audit report, which was issued on March 29, 2005, examined OMH's administration of Contract C005265 with Banana Kelly for the delivery of FRIENDS Program services, as well as Banana Kelly's compliance with contract terms, for the period July 1, 1998 through June 30, 2001. Our audit found that, although OMH paid Banana Kelly more than \$422,000 during the contract period, a significant number of Banana Kelly's contract-related payroll records were not available. Missing records included employee time cards, cancelled payroll checks and certain W-2 forms. We also found little evidence that Banana Kelly delivered OMH-approved services to eligible youth and families, or submitted required monthly performance reports.

The objective of our follow-up, which was conducted in accordance with generally accepted government auditing standards, was to assess, as of April 30, 2006, the extent to which the two recommendations included in our initial report were implemented by OMH officials.

### **Summary Conclusions and Status of Prior Audit Recommendations**

We found that OMH officials have addressed our prior report recommendations as appropriate. Of our two prior audit recommendations, one recommendation was implemented, and the other one is no longer applicable.

### **Follow-up Observations**

#### **Recommendation 1**

*Continue to follow-up with the Attorney General on the recoupment of funds paid to Banana Kelly for undocumented or inappropriate expenses and services.*

Status - Implemented

Agency Action - In addition to reported telephone conversations, OMH officials supplied us with several emails between an OMH program representative and an assistant attorney general addressing the recoupment of said funds, the roadblocks encountered to date, and the steps the assistant attorney general is taking to pursue collection. We confirmed the subject of these emails with the noted assistant attorney general.

**Recommendation 2**

*Closely review the performance of Friends Inc. both as a subcontractor of Banana Kelly and a contractor of OMH. Reassess OMH's utilization of Friends, Inc for the FRIENDS Program.*

Status - No longer applicable.

Agency Action - OMH officials informed us that in 2004, upon expiration of OMH's contract with Friends, Inc., the contract was not renewed. We confirmed their assertion with OSC's Bureau of Contracts.

Major contributors to this report were Frank Patone and Barry Mordowitz.

We wish to thank OMH officials for the courtesies and cooperation extended to our auditors during this process.

Very truly yours,

Frank P. Patone, CPA  
Audit Manager

cc: Lisa Ng, Division of the Budget