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STATE OF NEW YORK
OFFICE OF THE STATE COMPTROLLER

June 15, 2007

Richard F. Daines, MD
Commissioner
Department of Health
Corning Tower, Empire State Plaza
Albany, NY 12237

Re: Report 2007-F-11

Dear Dr. Daines:

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 followed up on the actions taken by the Department of Health officials to implement the recommendations contained in our audit report, *Western Regional Emergency Medical System, Inc. Grant Expenditures* (Report 2005-S-65).

Background, Scope and Objective

Emergency medical services (EMS) in New York State are provided by local ambulance services and other providers that are overseen by the Department of Health (Department). To help ensure EMS providers deliver competent pre-hospital and emergency medical care, the Department works with a number of organizations that set standards, develop procedures, analyze EMS data, provide EMS training, and recommend improvements in the EMS system.

There are 18 Regional Emergency Medical Services Councils (Regional Councils) that assess the need for new EMS services and coordinate EMS training in their respective geographic regions. In addition, 16 Program Agencies support the Regional Councils by performing such activities as providing technical assistance to EMS providers, aiding in the recruitment and retention of EMS personnel, and analyzing EMS service data to identify opportunities for improvement in the EMS system.

Western Regional Emergency Medical System, Inc. (WREMS) is one of 16 Program Agencies statewide. WREMS supports three Regional Councils serving eight counties in Western New York (Allegany, Cattaraugus, Chautauqua, Erie, Genesee, Niagara, Orleans, and Wyoming). WREMS is a not-for-profit corporation with a staff of 11. Its operations are overseen by an 18-member Board of Directors that includes representatives from each of the three Regional Councils associated with WREMS.

The Program Agencies enter into annual contracts with the Department to receive grants from the Department. While WREMS also receives some revenue from other sources, it is funded primarily by its annual grant from the Department. The period covered by the grant is July 1 through June 30 of the following year. Our initial audit focused on the year ended June 30, 2005, during which WREMS was awarded a contract for approximately \$381,000 from the Department. Comparable amounts were received in the preceding years. WREMS has been an EMS Program Agency for more than ten years.

According to the terms of its contract with the Department, WREMS is to expend its grant funds on activities that support emergency medical services in its eight-county service area. According to records maintained by WREMS, about 60 percent of their expenditures relate to staff salaries and other personal service costs (such as pension and health insurance costs), while the remainder relate to other expenses such as rent, travel, supplies, and equipment.

Our initial audit report, which was issued on June 6, 2006, audited the WREMS grant expenditures for the period July 1, 2004 through June 30, 2005. Our objective was to determine whether expenditures made by WREMS, under a grant from the Department, were reasonable and appropriate, and in particular, whether payments made by WREMS to its landlord (Crossroads, a not-for-profit corporation closely associated with WREMS) were reasonable and appropriate. Our initial audit found that the payments made by WREMS for leased office space may not be appropriate because it appeared WREMS may have used Crossroads as a front to retain ownership of the leased building and realize any profits from the sale and rental of the building. We also questioned the appropriateness of other costs beyond those related to leased space because the expenses were either inadequately documented, excessive, or not consistent with the stated purpose of the contract. The objective of our follow-up, which was conducted in accordance with generally accepted government auditing standards, was to assess the extent of implementation, as of April 30, 2007, of the three recommendations included in our initial audit report.

Summary Conclusions and Status of Audit Recommendations

We found that Department officials have implemented all three recommendations from our initial audit report.

Follow-up Observations

Recommendation 1

Determine whether the building purchased by Crossroads should rightfully be claimed as State property under the terms of the contract with WREMS. Also determine whether facility related expenses were inappropriate and need to be recovered.

Status - Implemented

Agency Action - Department officials referred matters relating to the building ownership and related facility expenses to the Attorney General's office. The Attorney General's office has filed suit to recover the building as state property, as it was purchased with state grant money, as well as inappropriate facility related expenses.

Recommendation 2

Assess the advisability of awarding future contracts to WREMS.

Status - Implemented

Agency Action - The Department assessed the advisability of awarding future contracts to WREMS and determined no future contracts will be awarded to WREMS. In the Department's audit of its contracts with WREMS, Department officials state \$233,000 in reimbursements made to WREMS were improper. The Department has partially recovered these improper reimbursements and is pursuing the remainder through a lawsuit brought by the Attorney General's office. In the Department's audit report they refer to Chapter 55 of the Laws of 1992 Section 70 as an authority not to renew the contract because the business owes an overdue debt to the agency. Department officials further state the three Regional Councils have broken off their relationship with WREMS and are seeking new Program Agencies to carryout its function.

Recommendation 3

Recover the questionable grant expenditures cited in this report, unless WREMS can provide documentation showing the expenditures to be reasonable and consistent with the stated purpose of the contract.

Status - Implemented

Agency Action - The Department conducted an audit of the WREMS contracts and determined approximately \$233,000 in contract reimbursements were improper. The Department has recovered \$73,000 of the \$233,000 in improper reimbursements. The Department is seeking the remaining approximate \$160,000 in a lawsuit brought by the Attorney General's office to recover those reimbursements as well as the building purchased by Crossroads.

Major contributors to this report were Andrea Inman and Donald Collins.

We thank the management and staff of the Department of Health for the courtesies and cooperation extended to our auditors during this process.

Very truly yours,

Kenneth I. Shulman
Audit Manager

cc: Mr. Thomas Howe (Department of Health)
Ms. Lisa Ng (Division of Budget)