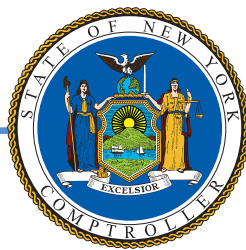

Office of Mental Health

Oversight of Supportive Housing Programs



OFFICE OF THE NEW YORK STATE COMPTROLLER

Thomas P. DiNapoli, State Comptroller

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Contents

- Executive Summary 1**
- Overview 2**
 - Background 2
 - OMH Supportive Housing Programs. 2
 - Role of DOHMH 3
- Audit Findings 4**
 - Findings Related to Fiscal Monitoring 4
 - Findings Related to Compliance with Program Requirements. 9
- Conclusion 12**
- Appendix A: Summary of Provider Audit Findings 13**

Executive Summary

Beginning in the 1990s, the New York State Office of Mental Health (OMH) has gradually transformed its residential treatment services for people with severe mental illness into supportive housing programs that are integrated in the community rather than institutional settings. Over time, case management for clients with serious mental illness has grown in complexity. The needs of clients can vary significantly. In addition to mental health services, many clients also require services to help end substance abuse, control chronic illnesses or address debilitating disabilities.

In general terms, providers of these services have also changed their business practices and organizational structures over time. Small community-based not-for-profits offering one particular service have been in many cases replaced by larger, multi-funded agencies operated by parent companies providing a range of related services.

Since 2014, the Office of the State Comptroller (OSC) has completed six audits of organizations which provided supportive housing services through contracts with OMH and the New York City Department of Health and Mental Hygiene (DOHMH). These audits identified weaknesses stemming from a lack of close monitoring supervision by OMH and DOHMH. They have cumulatively identified about \$2.4 million in recommended disallowances and questioned additional costs claimed totaling over \$847,000. In addition, OSC auditors identified times when providers did not meet certain program requirements intended to safeguard the health and safety of the clients they serve.

New York is expanding its supportive housing programs to help other vulnerable populations, such as homeless youth, seniors, and people with developmental disabilities. With billions of State taxpayer dollars proposed in recent State budgets for supportive housing programs over the next several years and many New Yorkers relying on the essential services examined in this report, it is time for State officials to re-evaluate how they oversee and monitor supportive housing programs to ensure that State funding is used in the most efficient and effective manner possible.

OSC will continue to promote best practices and to emphasize the importance of critical internal controls and responsible external oversight. OSC will also continue its efforts to ensure that taxpayer dollars intended to provide vital services for mentally ill New Yorkers are used wisely and efficiently.

Overview

Background

Finding and maintaining stable, affordable housing is a concern for many New Yorkers. However, for those vulnerable New Yorkers who experience severe mental illness, maintaining a stable, affordable home without additional help can be extremely challenging. Supportive housing is a highly effective strategy combining affordable housing with intensive coordinated services that can provide needed assistance.¹ Since the 1990s, the New York State Office of Mental Health (OMH) has gradually transformed its residential treatment services for people with severe mental illness into supportive housing programs that are integrated in the community, rather than institutional settings.

Supportive housing programs emphasize the client's role in choosing housing options and the support services they need to maintain independent living in the community. Under supportive housing, clients receive rental assistance and are generally required to contribute no more than 30 percent of their income towards rent. Clients are assigned a case manager to coordinate services (such as mental health services, substance abuse counseling, and work training) that may include multiple agencies and providers working together. Although clients are encouraged to set goals, they cannot be required to meet benchmarks (i.e., substance abuse treatment) or be subject to other screening barriers (i.e., criminal history) before moving into supportive housing.²

Studies have shown that supportive housing programs reduce the use of other costly systems and have been effective in breaking the common cyclical pattern in which people move between institutionalization and homelessness. A recent study in New York City found that individuals placed in supportive housing spent an average of 115 fewer days per person in homeless shelters, 75 fewer days in State-run psychiatric hospitals, and almost eight fewer days incarcerated compared to a similar group without supportive housing over a two-year period.³

OMH Supportive Housing Programs

OMH is responsible for the oversight and funding of a range of housing resources and residential habilitation programs that fall under the supportive housing umbrella. OMH programs include transitional housing (also known as congregate), licensed apartments, single room occupancy residences (SROs) and permanent housing (generally known as “supported”). OMH supportive housing programs can range from placement in a community residence that provides a

1 Ehren Dohler, Peggy Bailey, Douglas Rice, and Hannah Katch, “Supportive Housing Helps Vulnerable People Live and Thrive in the Community,” prepared for Center on Budget and Policy Priorities, May 31, 2016, page 1.

2 Ibid, pages 2, 3.

3 Ibid, page 4.

supervised, therapeutic environment for six to eight children or adolescents and includes services such as structured daily living activities and problem solving skills development, to its Supported Housing Program where the individual is provided with assistance in finding an apartment, entering a private lease agreement with a landlord in the community, and support designed to improve or maintain the ability to live independently. All clients who receive housing from OMH must have a diagnosis of severe and persistent mental illness.

In transitional housing programs, clients are assigned individual units within apartment building settings where program staff are available 24 hours a day, 7 days a week. Clients pay a flat fee towards their support. Transitional housing programs are governed by Title 14 of the New York State Codes, Rules and Regulations, Part 595 (Regulations).

In the Supported Housing Program, providers assist clients in locating apartments where the clients live with a high degree of independence. Providers help clients negotiate leases and help them move into and retain their apartments. Providers and clients are required to meet at least once monthly and at least once quarterly in the clients' apartment. Clients contribute up to 30 percent of their income toward their rent and the State pays the balance. OMH has two pieces of separately issued guidance for its Supported Housing Program providers: the Aid to Localities Spending Plan Guidelines and the Supported Housing Guidelines, the 2015 edition of which also includes a Questions and Answers supplement.

OMH funds supportive housing services either through direct contracts with providers after a Request for Proposals (RFP) process or through grants to localities, which then contract with local providers (as is often the case in New York City). Providers are authorized to serve a maximum number of clients (also referred to as the number of beds available). OMH establishes an annual stipend for each authorized housing unit to be used primarily for rent subsidies and associated administrative costs. OMH makes four quarterly advance payments to providers throughout the contract year based on the number of beds available.

Role of DOHMH

The New York City Department of Health and Mental Hygiene (DOHMH) contracts with not-for-profit providers for a range of health and social services, including supportive housing. As the contract-awarding agency, DOHMH has the responsibility to ensure that the not-for-profit providers are providing all contracted services in compliance with contract terms, and are requesting reimbursement only for supported, program-appropriate expenses.

Audit Findings

As case management for clients with serious mental illness has grown in complexity, the providers of these services have also generally changed in their business practices and organizational structures. Small community-based not-for-profits offering a particular service have been replaced in many cases by larger, multi-funded agencies operated by parent companies providing a range of related services. These providers generally receive program funding from multiple government agencies, each with its own financial reporting requirements and reimbursement methodologies.

Since 2014, OSC has completed six audits of organizations that provided supportive housing services through contracts with OMH and DOHMH. These audits identified weaknesses stemming from a lack of close monitoring and supervision by OMH and DOHMH. They have cumulatively identified about \$2.4 million in recommended disallowances and questioned additional costs claimed totaling over \$847,000. In addition, OSC auditors identified times when providers did not meet certain Program requirements that are intended to safeguard the health and safety of Program clients. Had OMH provided more timely oversight and issued more specific guidance, many of the findings and conditions noted in the audit reports may not have occurred.

The providers audited include Sky Light Center, Inc. (Sky Light); Center for Urban and Community Services (CUCS); DePaul Community Services, Inc. (DCS) and Living Opportunities of DePaul, Inc. (LOD) under the DePaul Group umbrella (DePaul); Institute for Community Living (ICL); Postgraduate Center for Mental Health (Postgraduate); and Rehabilitation Support Services (RSS). The six completed audits are summarized later in this report.

Findings Related to Fiscal Monitoring

Within four months following the end of their fiscal year (usually June 30), providers are required to submit an annual Consolidated Fiscal Report (CFR) to OMH (usually by November 1). The CFR consists of a series of schedules that capture financial information for budgets, quarterly and/or mid-year claims, an annual cost report, and a final claim. The CFR was developed as a way for providers who receive State and local government funding to report expenses and revenues related to the programs and services they provide on a standardized form accepted by multiple State agencies. In addition to OMH, the Office of Alcoholism and Substance Abuse Services (OASAS), the Office for People With Developmental Disabilities (OPWDD), and the State Education Department (SED) (collectively State agencies) also use the CFR. In addition to filing an annual CFR with OMH, DOHMH requires its supportive housing providers to file a Quarterly Fiscal Report (QFR).

The CFR is completed according to the rules established in the New York State Consolidated Fiscal Report and Claiming Manual (Manual). The Manual and its appendices specify standard guidelines for providers to follow in order to provide the State agencies with consistent data for comparison purposes. Because several State agencies use the CFR, the Manual is not specific to any one program. However, State agencies may provide specific guidance to their providers for their respective programs, either as an appendix (e.g., OPWDD's Appendix EE Reimbursement Principles) or as separately issued guidance (e.g., SED's Reimbursable Cost Manual). In addition to the Manual, DOHMH has its own Fiscal Manual for Human Services that requires providers to prepare a Cost Allocation Plan and submit it to DOHMH for approval.

As the oversight agency for supportive housing programs, it is OMH's responsibility to ensure that providers only claim allowable expenses on their CFRs. When submitting annual CFRs, providers must also submit their general purpose financial statements. However, with certain exceptions, providers are not required to submit supporting documentation for claimed expenses, but must retain the documentation in their files for six years to be available to the State agency upon request. OMH staff reviews the CFRs to ensure that they are complete and that amounts on the financial statements match those reported on the CFR. While OMH does perform limited desk reviews of the CFRs, it typically does not request any of the supporting documentation. DOHMH's Claims Verification Unit (CVU) periodically reviews samples of provider expenses for support and program eligibility. The CVU documents its periodic reviews, including the information it requests from the providers.

OMH officials explained to the OSC auditors that OMH staff rely on the providers' CPAs to verify that the expenses are reasonable and necessary, and comply with Program guidelines. However, as stated in both the Manual and the CPA certification included on the CFR, while the CPAs test certain amounts reported on the CFR, the CPAs do not determine whether all expenses are allowable in accordance with guidance for each individual program. Instead, the CPAs perform limited testing on the total expenses for the entire CFR and affirm that the CFRs were completed in accordance with the Manual and its appendices.

OSC auditors identified numerous errors in reported personal service and Other-Than-Personal-Service (OTPS) costs submitted by providers which can be attributed in part to the limited desk reviews performed by OMH staff. OSC audits recommended that OMH expand its desk reviews of providers' CFRs to include review of supporting documentation on a sample basis to ensure that claimed program expenses are reasonable, necessary and allowable. Additionally, the audits recommended that OMH staff review and recover the \$2.4 million in costs identified as inappropriate and unsupported, and review the questionable costs noted by OSC auditors. The following chart summarizes the audits' recommended disallowances and questionable costs.

Summary of Recommend Audit Disallowances and Questionable Costs							
Expense Category	Sky Light	CUCS	ICL	DePaul	Postgraduate	RSS	Totals
Personal Service (PS)							
PS Allocated from Other Programs	\$70,612	\$224,000					\$294,612
Personal Service Costs	\$54,690	\$829,000			\$507,495		\$1,391,185
Total Personal Service	\$125,302	\$1,053,000			\$507,495		\$1,685,797
Other Than Personal Services (OTPS)							
OTPS Allocated from Other Programs	\$99,690		\$59,093	\$29,163			\$187,946
Rental Payments	\$80,980						\$80,980
Vehicle Costs	\$21,043				\$6,572		\$27,615
Food, Gifts, Entertainment	\$3,225		\$13,610	\$6,534	\$19,894	\$32,171	\$75,434
Other Ineligible Costs	\$90,383	\$11,889	\$65,429	\$15,753	\$163,977	\$100	\$347,531
Total OTPS	\$295,321	\$11,889	\$138,132	\$51,450	\$190,443	\$32,271	\$719,506
TOTALS	\$420,623	\$1,064,889	\$138,132	\$51,450	\$697,938	\$32,271	\$2,405,303
Questionable Costs		\$32,000		\$326,249		\$489,616	\$847,865
GRAND TOTAL	\$420,623	\$1,096,889	\$138,132	\$377,699	\$697,938	\$521,887	\$3,253,168

The OSC audits also recommended that OMH develop supplemental guidance for providers on allowable program costs.

OMH officials did not always agree with the OSC audit findings or recommendations. OMH officials have indicated in their responses to draft audit reports that they consider the recommendations to be unnecessary as they already have strong fiscal controls in place and provide extensive guidance to providers to ensure that providers use of program funds are appropriate, allowable, and documented. However, OMH officials have agreed to review and recover a material amount of ineligible costs the OSC audits identified.

Expenses Claimed from Other Programs and Incorrect Allocation of Costs –

When providers offer more than one program and those programs share the same item of expense (such as shared staff, utilities, repairs and maintenance, and supplies and materials) the Manual has guidelines for allocating program costs among the different programs. The Manual's guidelines recommend different allocation methodologies that providers may use based on the type of shared costs, but also allows providers to use alternative methodologies they deem to be more reasonable. Providers are also required to maintain records to reflect how costs are allocated between programs.

Over half of the OSC audits (four of six) identified problems related to the provider's allocation of costs among programs and/or the inappropriate claiming of expenses from other programs. In many cases, the misallocation of program costs impacted other OMH programs and contracts as well those under audit by OSC. Additionally, OSC auditors also noted that OMH has not always been consistent in making all Program providers aware of what the OMH considers to be an acceptable methodology for allocating shared costs.

- **Personal Service** – Personal service costs include employee salaries, bonuses and fringe benefits. According to Manual guidelines, the portion of each employee's salary and benefits chargeable to the Program must be supported by time and attendance or other official records documenting the employee's attendance at work and time spent on Program business. In addition, as noted in the Manual, such documentation is crucial where an entity offers more than one program and personal service costs are to be allocated between those programs.

OSC's audits found three of the six providers claimed almost \$1.7 million in personal services expenses that were either unsupported, overbilled or improperly allocated.

- **Other-Than-Personal-Service (OTPS)** – According to the Manual, to be reimbursable, OTPS expenses (also referred to as non-personal service-related expenses) must be reasonable, necessary and program-related. As with personal services costs, OTPS costs must be documented and those costs must be allocated among programs based on a reasonable method (e.g., square footage, revenue comparisons).

OSC's audits of all six providers identified significant amounts of claimed costs that were not reasonable, necessary or program-related, or lacked the required supporting documentation. In total, the audits identified \$719,506 in disallowed costs and questioned another \$847,865 in program costs.

Timely Review of the CFR – The OMH CFR close-out process reconciles the quarterly advance payments made to the providers with the approved CFR summary to determine whether any moneys are due back to OMH from the provider. OMH staff members notify the provider if they determine that the provider has been overpaid. The provider then has 45 days in which to question OMH's calculation and to present evidence supporting any questioned expenses. OMH has the authority to recover overpayments by reducing advance payments in subsequent contract years.

According to OMH officials, "OMH guidelines clearly indicate that all closeouts should be completed within two years from the end of the contract fiscal period. Overpayments are generally recovered in the subsequent quarter. This timeframe allows for a number of factors, including: a six-month extension for provider

submission of CFRs; the CFR desk audit process; and required review and due process by the provider.”

However, OSC auditors noted that because OMH staff did not always perform the close-out process of CFRs in a timely manner, two of the providers audited received Program overpayments over a three-year period totaling \$1,390,147 and \$561,011 respectively.

- On March 15, 2016, OSC auditors requested from OMH its three most recent Postgraduate close-outs. The close-outs identified overpayments totaling \$1,390,147 for three fiscal years ending 2013-14. However, OMH did not notify Postgraduate of the overpayments until March 15, 2016, the same day the OSC auditors requested the three close-out analyses. OMH recovered the overpayments in July 2016.
- At the time of audit fieldwork (through October 22, 2015), the most recent closeout for ICL’s CFR was performed by OMH in June 2015 for the contract year ended June 30, 2011. Although the reconciliation indicated that OMH overpaid ICL by \$214,331, OMH had not initiated recovery of the overpayment. Additionally, OSC auditors learned that OMH did not reconcile ICL’s CFR for the contract year ended June 30, 2012 until January 2016 and had identified, but not recovered, an additional \$346,680 in overpayments. Further, at the time the OSC auditors concluded their field work, OMH had yet to perform the year-end close-outs for the years ending June 30, 2013 and June 30, 2014. Therefore, ICL could owe substantially more than the \$561,011 in overpayments already identified by OMH.

Based on these audit findings, it appears OMH is not consistently applying its established internal control procedures. It is essential that both the close-out review and any recoupment of funds be done on a timely basis so that these funds can be redirected effectively and efficiently.

Gift Cards Purchased for Use by Clients – OSC auditors identified three providers whose reported Program expenses included purchases of gift cards that were distributed to clients. In their response to the DePaul draft audit report, OMH officials stated that costs for gift cards could be considered appropriate Program expenses, if the cards were used to help individuals who lack basic living skills understand how to use money and make basic purchases (for items such as groceries and clothes) independently. However, the OSC audits consistently found that providers usually distributed gift cards around the December holiday period only, and that those transactions were routinely listed in their internal records as holiday gifts, not as assistance with life skills. Although gift cards are inherently high-risk items, OMH had not taken steps to verify that the providers’ use of gift cards was consistent with the circumstances discussed in OMH’s response. The lack of formal guidance that includes steps for verification increases OMH’s vulnerability to fraud. Although OMH has not yet issued any

formal guidance to providers on gift card use, OMH responded to the RSS draft report that it will consider OSC's audit recommendations to develop guidance on the appropriate use of gift cards.

Findings Related to Compliance with Program Requirements

OMH has a responsibility to ensure limited financial resources are spent on program-appropriate items and are properly supported. At the same time, OMH is responsible to ensure providers deliver the necessary services to supportive housing program clients so they can live independently. In addition to its Central Office, OMH has five regional offices located throughout the State to further assist providers in the delivery of Program services. According to OMH, the regional offices also play a role in its oversight process including visits with consumers (including apartment visits) and reviewing provider case records.

Further, DOHMH staff from the Office of Program Review and Evaluation (OPRE) make periodic visits to providers to verify that contracted services are being provided. OPRE assigns each provider a program score with associated recommendations and maintains documentation of its reviews.

The role of the provider is to assist individuals in finding appropriate housing. OSC audits of OMH's supportive housing programs identified weaknesses in OMH and DOHMH oversight and management.

30 Percent of Income – One of the main goals of supportive housing programs is to help clients maintain stable housing that they can afford and to live independently in apartments of their choosing in residential neighborhoods of the community. Since the Program began, clients have been expected to pay a portion of their rent and utilities. Historically, this amount has been limited to 30 percent of the client's income.

Provider housing specialists complete rental stipend worksheets with each client at least once annually or when a client's income has changed significantly. The worksheet is used in determining the amount of rent the client is responsible for paying. The provider supplements the difference from the annual per-client stipend received from OMH. According to OMH officials, providers should use about 70 percent of the annual per-client stipends to supplement rents (with the remainder used for other services needed for clients to remain in independent housing). When utilities are not included in the rent, the client is entitled to a reasonable reduction in their share of the rental payment. In 2015, OMH developed a new rental stipend worksheet that requires prior approval by OMH if clients have to pay more than 30 percent of their income for rent and utilities.

Three of the six OSC audits identified instances when providers did not consistently follow the 30 percent of income guidance and requirements. The OSC auditors noted that agency staff from OMH and DOHMH do not always regularly visit providers to review case files, including rental stipend worksheets. As a result, agency staff are not able to identify whether or not rents are being calculated correctly or if clients exceed the 30 percent of income threshold without the required pre-approvals from OMH.

Client Visits – According to the Supported Housing Guidelines, “Supported Housing direct care staff should conduct and document a minimum of one face-to-face recipient contact per month. At least quarterly, this contact should occur in the recipient’s home. Recipients’ needs may change from time to time, and additional visits and/or contacts may be necessary. Providers should maintain records regarding such services and contacts. Other necessary contacts may be made through further face-to-face contacts with the recipient at a location judged convenient by both the recipients and Supported Housing staff person.”

The OSC auditors found that three providers were not always visiting client apartments as required and as a result had not identified several potentially hazardous conditions. When these deficiencies were noted in the audit reports, OMH officials repeatedly responded that its regional field offices routinely use a “rigorous oversight process” that includes visits with consumers at their apartments; a review of provider case records; an examination of policies and procedures; and a review a of occupancy, governance, health and safety, finance and advocacy issues.

However, the OSC audits found that OMH regional field offices did not routinely use this process.

For example, OMH’s western New York regional field office never visited DCS during the 34-month audit period and only visited LOD one time (in 2015). Further, even when OMH regional office staff did make visits to providers, as in the case of the OMH NYC Field Office and Postgraduate, they did not always follow up on corrective action plans.

Further, Sky Light officials explained to the OSC auditors that some clients refused to allow apartment visits. When Sky Light officials brought the matter to the attention of their OMH liaisons, the provider did not receive OMH support to enforce the visits. As noted in the audit report, this was confirmed by OMH officials.

Contingency Funds – According to the Supported Housing Guidelines, providers are to set aside contingency funds of \$500 per person per year from the annual OMH operating subsidy. The contingency funds are to be made available to the Program provider to resolve situations that place the recipient at risk of losing his or her housing. The OSC audits found that four of the six providers had either

not established contingency funds or, where established, the funds may not have been used for the intended purposes of the Program. These instances could have resulted, in part, from inconsistencies in the Guidelines and instructions, and responses provided by OMH officials related to contingency funds.

For example, page 9 of the 2015 Supported Housing Guidelines states “Contingency funds (\$500 per person per year) **should** be set aside annually from the per unit annual OMH operating subsidy. Contingency funds are made available to the provider to resolve situations that place the recipient at risk of losing his/her housing.” However, on pages 11 and 12 of the 2015 Supported Housing Guidelines Question and Answer document, OMH states, “For SP-SRO (Supportive/Single Room Occupancy Housing) setting aside \$500 per year per consumer in contingency is optional. For the Scattered-site Supported Housing units, setting aside \$500 per year per consumer in contingency is **required**.” All of the provider programs identified in OSC audits as not establishing contingency funds are for Scattered-site Supported Housing units and therefore, contingency funds should have been set aside in the amount of \$500 per client.

Conclusion

New York is expanding its supportive housing programs to help other vulnerable populations, such as homeless youth, many of whom have spent time in the foster care system and struggle with mental health and trauma issues.⁴ Supportive housing may also help seniors age in place in the community, as well as help people with developmental disabilities be integrated into the community rather than living in segregated group homes. With billions of State taxpayer dollars proposed in recent State budgets for supportive housing programs over the next several years and many New Yorkers relying on the essential services examined in this report, it is time for State officials to re-evaluate how they oversee and monitor supportive housing programs to ensure that State funding is used in the most efficient and effective manner.

The Office of the State Comptroller will continue to promote best practices and to emphasize the importance of critical internal controls and responsible external oversight. OSC will also continue its efforts to ensure that taxpayer dollars intended to provide vital services for mentally ill New Yorkers are used wisely and efficiently.

⁴ "No Strings Attached: Helping Vulnerable Youth with Non-Time Limited Supportive Housing," Corporation for Supportive Housing(CSH), March 2016, <http://www.csh.org/wp-content/uploads/2016/03/CSHNontimeLimitedYouthSH.3.25.16.pdf>.

Appendix A: Summary of Provider Audit Findings

Center for Urban Community Services (CUCS) (2014-N-5) is a not-for-profit organization that provides housing and service programs for homeless and low-income people, particularly those suffering from serious mental illness, HIV/AIDS, and other disabling conditions. CUCS sponsors 19 service sites throughout Manhattan, Brooklyn, and the Bronx that provide a range of programs and services including transitional living communities and a permanent supportive housing program. Other programs and services include a street outreach program; a job training and employment program; and a prisoner re-entry program. According to CUCS's website, through the DOHMH, the CUCS Institute (under the CUCS umbrella) also provides a range of training and support services to other program providers who serve the homeless and other vulnerable populations in New York City.

DOHMH signed one of its largest supportive housing contracts with CUCS in 2010. The original three-year \$27.7 million contract for a variety of mental health services was increased to \$28.7 million for expanded program offerings. OMH funds about 75 percent of this contract, with additional funding from the New York City HIV and Aids Services Administration and the Department of Homeless Services.

The OSC auditors selected three larger CUCS programs (Times Square Hotel, 350 Lafayette Street, and Prince George Hotel) and verified that CUCS provided the housing and support services prescribed by the contract. However, in reviewing certain financial aspects of the contract, the OSC audit identified about \$1.06 million in unsupported and/or inappropriate expenses reported by CUCS for the fiscal year ended June 30, 2013, including:

- \$829,000 for direct care personal services were inappropriately charged because CUCS claimed unsupported average annual salaries and related fringe benefits instead of the actual personal service costs on its QFRs. The OSC auditors found that actual average annual salaries for the employees charged to the contract were consistently lower than the salaries used by CUCS to claim personal service costs on its QFRs.
- \$224,000 in salary expenses for seven CUCS administrative employees that were charged to the contract's direct care personal service category and were also allocated among all CUCS programs as administrative costs. Because the work performed by these employees benefits multiple CUCS programs, their salaries and fringe benefits are to be allocated among CUCS's various programs using the methodologies prescribed by the OMH and DOHMH manuals.

The OSC auditors also questioned (but did not disallow) another \$32,000 in monthly rent invoices submitted by one property manager to CUCS that included the client's share of the rent. According to the property manager, many of the clients residing at his property did not pay their share of the rent (up to 30 percent of their income), so he in turn billed the clients' unpaid portion to CUCS. CUCS paid the increased amount without verifying the property manager's assertion. The OSC audit report points out that because the agreements between CUCS and the property managers are silent on this issue, it is imperative that these circumstances be investigated by CUCS before payment, and that CUCS develop a policy to address this issue.

DePaul Group (2015-S-42) is a large not-for-profit community support organization that provides a range of services in New York, as well as in North Carolina and South Carolina. These services include addiction prevention and support services, affordable housing, residential, clinical and rehabilitative mental health services, senior living communities, support programs, and vocational programs. According to the DePaul website, future plans include the construction of an affordable housing and mental health residential building in Schenectady, NY and a senior living community in Wheatfield, NY.

Currently, DePaul's New York affiliates provide services at program sites located in 10 counties in Western New York. Two of those affiliates, DePaul Community Services, Inc. (DCS) and Living Opportunities of DePaul, Inc. (LOD) provide Supported Housing Program services. DCS provides services to clients in Monroe County through a contract with the County. LOD provides services to clients in Genesee and Orleans counties through a direct contract with OMH and in Erie and Wyoming counties through contracts with those counties.

On their 2013 and 2014 CFRs, DCS and LOD reported a total of \$6,327,592 in Supported Housing Program expenses, including direct Program and administrative costs. The OSC auditors reviewed a sample of these expenses totaling \$360,918. The OSC audit identified \$41,743 in inappropriate and/or unsupported costs charged by DCS and LOD to the Program and \$9,707 in expenses improperly charged to other OMH-funded programs (for a total of \$51,450), including:

- \$27,020 in expenses that lacked sufficient supporting documentation for expenses such as computer supplies, phones, and rents.
- \$12,493 for conference-related costs that are not allowable per the Manual, including: conference sponsorship costs; rooms used by guests of the DePaul Group's CEO; suite rentals in excess of standard hotel room rate; and alcohol served at a dinner hosted by the CEO.

In addition, the OSC auditors questioned \$109,987 in expenses that require additional review and quantitative analysis by OMH staff. The questionable costs include:

- \$53,505 in vehicle operating costs that each entity (DCS and LOD) allocates differently on its CFR. In addition, neither DCS nor LOD follow the common business practice of requiring employees to sign out pool vehicles or to log trips (including date, destination, and mileage).
- \$41,624 for pension costs charged to the Program. The DePaul Group and its affiliates stopped offering a pension plan in October of 2006, however DCS and LOD continue to allocate pension costs across all programs regardless of whether the employees working on those programs are actually eligible to receive a pension.
- \$14,859 for gift cards for well-known retail stores and supermarkets purchased immediately before Christmas in 2013 and 2014. According to DePaul officials, the gift cards were used for Program clients who lack basic living skills to make routine purchases independently. However, according to the organizations' financial records, the gift cards were designated as 'gifts to clients.' Additionally, there were no records matching the distribution of individual gift cards to individual clients or showing what items clients purchased with the gift cards.

The OSC auditors also identified \$212,262 in administrative expenses allocated from the DePaul Group to DCS and LOD that were not correctly reported or adequately supported. For example, the supporting documentation provided to the OSC auditors and OMH by DCS and LOD showed how each affiliate's allocated portion was calculated, but did not specify what DePaul Group expenses were covered by the management service fee. Also, because DCS and LOD reported the allocated expenses from the DePaul Group as if the expenses were incurred by the affiliates and not the parent company, they were not required to submit supporting documentation.

The OSC auditors selected a sample of 20 clients and reviewed their case files to determine if DCS and LOD housing specialists were providing the necessary services to clients to enable them to live independently. Based on their review of the case files, the auditors noted that case files contained varying levels of visit details. The OSC auditors also noted that the DePaul housing specialists did not always visit clients in their home at least once per quarter, but arranged to meet with them at other locations. Finally, the auditors found that from the sample of 20 clients, four clients were paying more than 40 percent of their income for rent and utilities, with one client paying almost 50 percent of his income for these costs.

Institute for Community Living (ICL) (2015-S-39), a not-for-profit organization, is one of the largest providers of supportive housing services in the State. ICL's OMH-funded programs focus on six transitional housing programs and one supported housing program for individuals with severe and persistent mental illness at locations throughout the greater New York metropolitan area. These programs include both multiple and single-occupancy apartments. ICL is authorized by OMH to serve a maximum of 1,420 clients annually. ICL's most recently completed contract with OMH covered the period July 1, 2009 through June 30, 2014. ICL was paid \$116.6 million under this contract, with \$21.5 million claimed for fiscal year 2013-14. Although the OSC audit found that ICL provided the required contract services and charged personal services costs to the contract in an appropriate manner, the OSC audit identified \$138,132 in inappropriate and/or unsupported OTPS costs charged to the contract for the audit review period, including:

- \$59,093 for administrative office space used by other programs/contracts.
- \$53,800 for personal telephone service in transitional client apartments and fax services in transitional housing administrative offices that should have been covered by administrative overhead.
- \$12,010 for an annual Winterfest party for staff, family members and their friends.

Rehabilitation Support Services (RSS) (2016-S-5) is a private company located in Altamont, NY providing community-based mental health and substance abuse services. According to the RSS website, services include OMH residential group homes, licensed and supported apartment living, care coordination and case management, supported employment and agency-run businesses, wellness centers, personalized recovery-oriented services (PROS) and a wide array of related support programs. RSS is also under contract with OASAS to operate a residential facility, and a shelter plus care apartment program, and has plans to add two additional residential facilities.

RSS has contracts with OMH and the counties of Albany, Schenectady, Otsego, Dutchess, Orange, Sullivan, Tioga, and Schoharie to provide supportive housing services. For the 12-month period ending December 31, 2014, RSS claimed nearly \$7.8 million in expenses to provide 708 beds for Program clients in the eight counties it serves. The OSC auditors reviewed a sample of these expenses totaling \$777,062. The OSC audit identified \$32,271 in inappropriate and/or unsupported costs, including:

- \$16,872 for a half-day RSS Board of Directors retreat held in Lake Placid. The retreat included lunch and an afternoon board meeting, followed by a cocktail hour and dinner. Additionally, some attendees stayed at the hotel (some stayed for two nights), even though there were no meetings the following day.
- \$14,170 for a holiday party, coffee, food and flowers for staff.

In addition, the OSC auditors questioned \$489,756 in expenses that require additional review and analysis by OMH staff of which \$137,949 were charged to the Supported Housing Program. The questionable costs include:

- \$319,777 for professional service contracts that were not competitively bid, including Information Technology (IT), legal and accounting services.
- \$83,805 for payments to related parties for catering and construction services.
- \$32,617 for food for clients and staff.
- \$23,944 for unnecessary storage units used for record retention purposes, including items that were not records and records that were no longer needed.
- \$21,971 for events related to “May is Mental Health Month,” including dinners, receptions, luncheons and poster contests.
- \$7,642 for gift cards that were referred to as holiday gifts in RSS records. RSS and OMH officials told the OSC auditors the gift cards could be an acceptable way to encourage clients’ independence in selecting and making purchases.

The OSC auditors selected a sample of 27 clients from three different counties (Albany, Orange, and Otsego) and reviewed their case files to determine whether RSS was providing appropriate services for its clients. Twenty of the clients allowed the OSC auditors to visit them in their homes. The OSC auditors found that RSS housing specialists were generally providing the necessary services by meeting with clients as required (and frequently more often) and assessing the clients’ needs in order to develop support plans.

Sky Light Center Inc. (Sky Light) (2012-S-37) is a not-for-profit provider of psychosocial rehabilitation services located in Staten Island, NY. Sky Light provides supportive housing services to a number of State and local government programs. Sky Light is authorized by OMH to serve a maximum of 90 clients and received total program-related payments of about \$2.6 million for the two fiscal years ended June 30, 2012. The payments are based on an annual flat fee of \$14,493 for each authorized housing unit. The funds are used primarily for rent subsidies and associated administrative costs. The OSC audit identified \$420,623 of unsupported and/or inappropriate expenses reported by Sky Light on its CFRs for the audit review period from February 1, 2007 to March 31, 2013, including:

- \$70,612 in personal service costs that should not have been charged to the Supported Housing Program. Although most Sky Light employees split their time between the Supported Housing Program and other contracted services, they were not required to track their actual hours worked to the different programs. Instead, personal service costs were reportedly

allocated between the programs based on a formula embedded in Sky Light's accounting software. Sky Light officials were unable to explain the rationale used for the allocations. Therefore, OSC auditors performed their own calculations using a common allocation methodology (ratio of Program revenue to total revenue) to identify the inappropriate costs.

- \$54,690 in additional compensation paid to the former Assistant Executive Director and Program Director for undocumented emergency "on-call" services provided during the audited period. Sky Light officials were unable to provide any evidence that either employee ever responded to off-hour emergencies or performed extra service work.
- \$143,835 for OTPS expenses inappropriately allocated from other programs that were for costs including utilities, building repairs and training expenses.
- \$62,380 and \$18,600, respectively, in rental payments for vacant office and client space.
- \$22,691 for invoices for which there is no supporting documentation.
- \$21,043 for vehicle costs inappropriately allocated to the Program.

OSC auditors also questioned the expenditure of over \$75,000 in contingency funds that were to be used specifically for client housing emergencies. However, Sky Light officials reportedly used the funds to purchase such items as computers, microwave ovens, televisions and gift certificates. Sky Light leased a storage facility to store many of these items, but did not keep any detailed inventory records. Although Sky Light officials provided the OSC auditors with attestation statements from clients that they received these types of items, there was no evidence (i.e. serial numbers or inventory control numbers) to prove these were the same items purchased with contingency funds.

OSC auditors selected a sample of 37 clients in order to review their case files and visit their apartments. The OSC auditors found that Sky Light staff did not always make all of the monthly visits to client apartments as required by the Supported Housing Program Guidelines because some clients refused to allow access to their apartments. From the sample of 37 client case files, the OSC auditors noted that six client apartments had not been visited by Sky Light staff in over a year, and another five clients had never been visited since entering the Program (for a total of about 30 percent of the sample). The five clients had been living in their supported housing units for periods ranging from 2 to 20 years.

OSC auditors, accompanied by a Sky Light representative, conducted site visits to 29 apartments, identifying several potential safety issues such as the lack of smoke and carbon monoxide detectors, and of fire extinguishers (13 apartments, or about 45 percent, of the sample). In addition, one apartment had a leak in the bathroom ceiling in the vicinity of the electrical wiring. Two of the units had stoves

with non-functioning pilot lights which clients used matches to light manually. Sky Light officials have taken actions to resolve the potential safety issues.

The Postgraduate Center for Mental Health (Postgraduate) (2015-S-88), a not-for-profit provider of community-based mental health services, is one of largest providers of these services in the New York City region. Postgraduate operates five community residences as well as congregate and scattered site supported housing located in the Bronx, Manhattan and Brooklyn. According to Postgraduate's website, there are well over 1,000 operational housing units under the Postgraduate umbrella, with an additional 200-300 apartments in various stages of design, development and construction. Postgraduate is a major developer of housing for individuals with mental illness, owning 10 apartment buildings in the City. In addition, Postgraduate operates an outpatient clinical services program and has become one of the largest care management/health home providers in the Metropolitan area. The website also explains that Postgraduate's central administration is one of the keys to the organization's overall efficiency, with the core group functioning in multiple areas of responsibility.

Postgraduate's OMH-funded programs include transitional and supported housing for individuals with severe and persistent mental illness. Postgraduate is authorized by OMH to serve a maximum of 725 clients annually. Postgraduate's most recently completed contract covered the period July 1, 2009 through June 30, 2014. Postgraduate was paid \$40.8 million under this contract, of which \$9.67 million pertained to the year ended June 30, 2014. OSC auditors identified \$697,938 in unsupported and/or inappropriate expenses charged to the audited contract for the year ended June 30, 2014 and for the prior fiscal year ended June 30, 2013, as well as to other related OMH contracts, including:

- Postgraduate (a not-for-profit) contributed \$600,000 to a profit-sharing plan, of which \$207,743 was charged to its supported housing contract with OMH. Postgraduate charged \$21,214 in profit-sharing costs to other OMH contracts for the 2013-14 year and also charged profit-sharing costs totaling \$228,957 to all OMH contracts for the 2012-13 year.
- When questioned by OSC auditors, Postgraduate officials explained that because their employees are not highly paid, any program surpluses are distributed to staff to augment their base annual compensation. Per the contract, any year-end surpluses should be returned to the State. Further, the auditors noted that three of Postgraduate's executive staff received \$50,000 each, while the remaining employees received an average of only \$1,092.
- \$21,076 was charged during the 2013-14 contract year for contributions to a deferred compensation plan for which Postgraduate's Chief Executive Officer (CEO) was the only covered employee. Because the plan was not

available to all Postgraduate employees, it was not reimbursable pursuant to the Manual. Postgraduate similarly charged another \$28,404 in deferred compensation to other OMH contracts during the audit period.

- \$164,845 was charged for costs that were not related to the audited program or other OMH contracts, including:
 - \$58,786 in mortgage interest already paid by OMH for some of Postgraduate's residential properties; and
 - \$14,005 in professional fees related to the private sale of a donated property to a hotel developer, the proceeds of which \$50.8 million were reported on the books of non-OMH programs (an additional \$18,941 was charged to other OMH contracts).

For the 2013-14 contract year, Postgraduate's CEO was paid a total of \$847,118, consisting of \$396,289 in base salary, \$273,000 in bonus pay, and a \$177,829 distribution from his deferred compensation account. Of this amount, \$222,295 was charged to the audited contract and other OMH contracts. However, the salaries paid to CEOs of not-for-profits contracting with the State are generally limited to \$199,000 based on New York State Executive Order 38. Applying the limit of \$199,000, the OMH contracts would have been charged only \$66,095, based on the percentage allocation used by Postgraduate.

The OSC auditors selected a sample of 28 Postgraduate clients in order to review their case files and visit their apartments. The auditors' visits to client apartments identified conditions in nine of the 14 of the apartments (or 64 percent) that may affect the health and/or safety of those clients, including:

- Three apartments visited had significantly damaged ceilings or walls.
- Another apartment had a strong smell of cat urine. The Postgraduate case manager's progress notes for the client stated that a hospital mobile crisis unit representative would not enter the apartment because of the severe odor.
- Two apartments did not have smoke/carbon monoxide detectors installed.
- Another apartment had a severe bedbug problem.

Contact

Office of the New York State Comptroller
110 State Street, 15th Floor
Albany, New York 12236

(518) 474-4015

www.osc.state.ny.us

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