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STATE OF NEW YORK
OFFICE OF THE STATE COMPTROLLER

April 10, 2013

Ms. Arlene Gonzalez-Sanchez
Commissioner
Office of Alcoholism and Substance Abuse Services
1450 Western Avenue
Albany, NY 12203

Re: Contract with Daytop Village, Inc.
Report 2011-F-18

Dear Ms. Gonzales-Sanchez:

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 officials of the Office of Alcoholism and Substance Abuse Services (OASAS) to implement the recommendations contained in our audit report, *Contract with Daytop Village, Inc.* (Report 2008-R-1).

Background, Scope and Objective

OASAS oversees the nation's largest and most diverse addiction treatment system. Its mission is to provide accessible, cost-effective, high-quality services that strengthen communities, schools, and families through alcohol and drug prevention and treatment; and to meet individual needs through specialized services. OASAS often uses independent contractors to assist it in carrying out its mission. In July 2004, OASAS entered into a \$95.2 million, five-year contract with Daytop Village Inc. (Daytop), a New York City-based not-for-profit corporation, to provide a Chemical Dependency Services Program (Program) for adolescents and adults. The Program included medical supervision, rehabilitation services and vocational rehabilitation to outpatient clients and intensive residential services. Most clients were referred to Daytop through the criminal justice system. The contract has been extended through December 31, 2012 bringing the total contract amount to \$150.3 million, about \$138.6 million of which had been paid to Daytop as of October 4, 2012.

OASAS funds Daytop's operations on a "net deficit" basis. As such, Daytop bills OASAS for all Program-related expenses to the extent that they exceed all other Program-related revenues, including payments from Medicaid, private insurers or Program clients. Daytop must ensure all revenues are pursued and expenses are reasonable, necessary and Program related. Failure to

do so increases the deficit and places greater burden on scarce State resources. At the end of each fiscal year, Daytop submits a Consolidated Fiscal Report (CFR) to OASAS detailing its actual expenses and revenue collections. OASAS reconciles its payment advances to the CFR and adjusts future quarterly payments to Daytop as appropriate.

Our initial report was issued May 6, 2010 and included contract payments to Daytop from July 1, 2004 through June 30, 2008. The objective was to determine whether contract payments that OASAS made to Daytop were reasonable and appropriate, and supported by adequate documentation. Under the contract, Daytop must maximize all revenues that can be obtained for Program services, must ensure only appropriate costs are charged to the Program and must offset such costs with program revenues to establish amounts to be charged to and reimbursed by OASAS. We found that Daytop did not fulfill these responsibilities during the contract period, and as a result, OASAS paid Daytop at least \$11.5 million more than it was entitled to.

The objective of our follow-up was to assess the extent of implementation, as of October 4, 2012, of the three recommendations included in our initial audit report.

Summary Conclusions and Status of Audit Recommendations

We found that OASAS officials have made progress in addressing the matters in our initial audit report. One of the three prior recommendations was implemented and two have been partially implemented.

Follow-up Observations

Recommendation 1

Examine Daytop's fiscal activity for the full contract period, including the exceptions noted in this report, to identify all Program revenues that should have reduced contract costs, as well as to identify ineligible expenses charged to the Program. Determine to what extent the State should recover amounts paid to Daytop.

Status - Partially Implemented

Agency Action - OASAS audited only one year (July 1, 2006 through June 30, 2007) of the contract because, according to OASAS, its Audit Unit was "dramatically understaffed," and Daytop's books and records were in poor condition and not computerized, making it extremely time consuming to complete audit work. The OASAS audit identified inadequate revenue collection efforts by Daytop that resulted in \$270,047 in offsetting revenue that went uncollected. This amount was partly offset by \$87,351 in eligible costs for reimbursement that Daytop did not claim, resulting in a net recommended recoupment from Daytop of \$182,696. A recovery plan was proposed in January 2012 by Daytop. Under the plan, OASAS was to recover \$182,696 in three installments. However, Daytop filed for bankruptcy in April 2012 before a formal agreement was entered into and no money was recouped.

Recommendation 2

Using a risk-based approach, perform more on-site reviews of providers' fiscal operations to complement CFR desk reviews.

Status - Implemented

Agency Action - OASAS increased the number of on-site reviews it conducted from 38 during fiscal year 2010-2011 to 45 in the following year. OASAS plans to conduct 56 site reviews in fiscal year 2012-13. All of the site reviews were selected using a risk-based approach and scheduled accordingly. As of September 25, 2012 there were 341 providers subject to site visits. Risk is assigned using a quarterly automated process which accesses different OASAS databases. The process calculates the risk for different categories and assigns a total score for the provider. The providers with the highest risk scores are scheduled first for on-site review. Our review of 10 completed on-site reviews found that the providers submitted corrective action plans to address the deficiencies noted.

Recommendation 3

Follow up on all recommendations made to providers as a result of on-site audits and/or CFR desk reviews to ensure that they are promptly addressed and implemented as appropriate.

Status - Partially Implemented

Agency Action - OASAS requires their auditors to follow up and report on the status of prior audit recommendations identified by site visits and/or desk reviews, when scheduling and conducting a current on-site audit. Desk reviews are completed prior to conducting the onsite review, and will list any prior site visit recommendations and corrective action plans that the providers have prepared. This information is recorded on a pre-site visit preparation form that is completed during the desk review. The form will alert auditors that they need to follow up on prior audit findings. We selected twelve recently completed desk reviews and noted that OASAS had followed-up on the prior recommendations. Four of the twelve providers had been cited in previous site reviews and had submitted corrective action plans, which were approved by OASAS.

Major contributors to this report were Todd Seeberger and Dick Gerard.

We would appreciate your response to this report within 30 days indicating actions planned to address the unresolved issues discussed in this report. We thank the management and staff of the Office of Alcoholism and Substance Abuse Services for the courtesies and cooperation extended to our auditors during this process.

Very truly yours,

Michael Solomon
Audit Manager

cc: Tricia Schell-Guy, OASAS Liaison
Thomas Lukacs, Division of the Budget