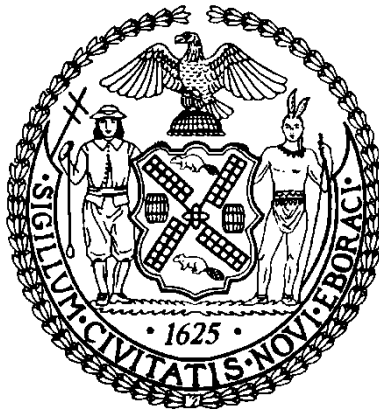


CITY OF NEW YORK OFFICE OF THE COMPTROLLER

**John C. Liu
COMPTROLLER**

MANAGEMENT AUDIT

**Tina Kim
Deputy Comptroller for Audit**



Audit Report on the Oversight and Monitoring of Mental Hygiene State Funds Administered by the Department of Health and Mental Hygiene

MG11-139A

May 10, 2012

<http://comptroller.nyc.gov>



THE CITY OF NEW YORK
OFFICE OF THE COMPTROLLER
1 CENTRE STREET
NEW YORK, N.Y. 10007-2341

John C. Liu
COMPTROLLER

May 10, 2012

To the Residents of the City of New York:

My office has audited the oversight and monitoring of mental hygiene state funds administered by the Department of Health and Mental Hygiene (DOHMH). We audit City entities such as this as a means to increasing accountability and ensuring that resources the City received are used effectively, efficiently, and in the best interest of the public.

The audit found that DOHMH needs to improve its monitoring of State funds earmarked for mental hygiene services. Specifically, DOHMH did not develop adequate strategies to maximize the use of the State funds and to ensure that all funds made available to it by the State were spent. During Fiscal Year 2010, DOHMH did not distribute \$10.4 million out of \$189.9 million in State funds. As a result, there is an increased risk that individuals who are eligible for DOHMH's mental hygiene services may not always be receiving those services. Furthermore, DOHMH did not perform any trend analyses to identify at an early stage of the operating period those contracts whose funds may not be fully utilized.

To address these issues, the audit made three recommendations, including that DOHMH should develop strategies for the reallocation of unspent funds among programs within the same funding source and should perform trend analyses of the spending of State funds.

The results of the audit have been discussed with DOHMH officials, and their comments have been considered in preparing this report. Their complete written response is attached to this report.

If you have any questions concerning this report, please e-mail my audit bureau at audit@comptroller.nyc.gov.

Sincerely,

A handwritten signature in black ink, appearing to read "JCL".

John C. Liu

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***The City of New York
Office of the Comptroller
Management Audit***

**Audit Report on the Oversight and Monitoring of
Mental Hygiene State Funds Administered by the
Department of Health and Mental Hygiene**

MG11-139A

AUDIT REPORT IN BRIEF

The Department of Health and Mental Hygiene (DOHMH) protects and promotes the health and mental well-being of all New Yorkers. State funding for DOHMH's mental hygiene services is outlined in the State Aid Letters sent to DOHMH on an annual basis by various State Agencies, which outline the appropriation for each funding code. On a quarterly basis, DOHMH receives advance payments from the State based on the dollar amounts stipulated in the letters. At the end of the year, unused funds are offset against future spending.

During Fiscal Year 2010, DOHMH had 341 contracts with 219 providers to offer mental hygiene services to over 700 program units. During this period, DOHMH received \$205.8 million in advanced State funding for mental hygiene services, of which \$189.9 million was allocated directly to these programs. The objective of this audit was to determine whether DOHMH has adequate oversight to maximize the use of State funds for mental hygiene services.

Audit Findings and Conclusions

Our review of DOHMH's oversight of the utilization of State funds revealed that it needs to improve its monitoring of State funds earmarked for mental hygiene services. Specifically, DOHMH did not develop adequate strategies to maximize the use of the State funds and ensure that all funds made available to it by the State were spent. As a result, during Fiscal Year 2010, DOHMH did not distribute \$10.4 million out of \$189.9 million in State funds (5.5 percent). The unused funds remain in the advanced revenue source account to offset against future spending, resulting in an overall reduction in State funding provided.

DOHMH does not have an established strategic plan in place to reallocate unspent funds from one program to other programs (within the same funding source) that have higher demand for services or a greater capacity to serve additional clients. As a result, there is an increased risk that individuals who are eligible for DOHMH's mental hygiene services may not always be receiving those services. In addition, DOHMH does not perform any trend analyses to identify at an early stage of the operating period those contracts whose funds may not be fully utilized. The identification of such tendencies may serve as an indicator that DOHMH officials can work

with the providers to deal with operating issues and develop strategies in time to maximize the use of the State funds.

Audit Recommendations

To address these issues, we make the following three recommendations. DOHMH should:

- Develop strategies for the reallocation of unspent funds among programs within the same funding source.
- Continue working with the State to obtain greater flexibility in using State funds.
- Perform, on a quarterly basis, trend analyses of the spending of State funds and work with providers on a continuous basis to address issues that may negatively affect the ability to utilize State funds.

Agency Response

DOHMH officials agreed to implement two of the three recommendations in the report and disagreed with our recommendation to develop strategies for the reallocation of unspent funds among programs within the same funding source, asserting that there are State restrictions that prohibit at least some such reallocation. DOHMH officials, however, provided no State regulations or guidelines to support their assertions, stating that they had nothing in writing. Accordingly, we see no reason to alter our findings.

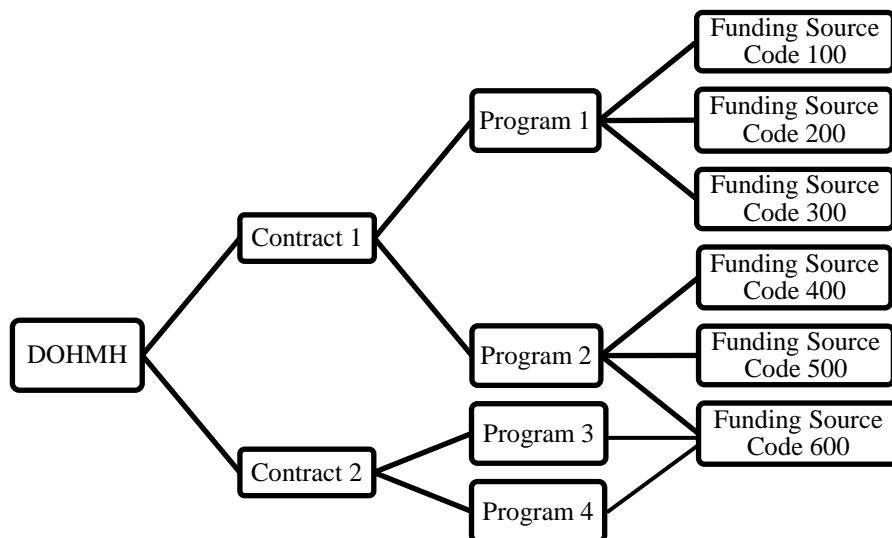
INTRODUCTION

Background

The Department of Health and Mental Hygiene (DOHMH) protects and promotes the health and mental well-being of all New Yorkers. DOHMH receives State funding for both public health and mental hygiene services. DOHMH is reimbursed for public health service expenditures based on eligible services provided. Conversely, the State provides advance payments for mental hygiene services and the total amount of funding per year is capped. This audit focused on State funding for mental hygiene services.

DOHMH's mental hygiene services include mental health, developmental disabilities, and alcohol and drug abuse treatment. State funding for the above-mentioned services is outlined in the State Aid Letters sent to DOHMH on an annual basis by various State Agencies¹. The letter outlines the appropriation for each funding code and, on a quarterly basis, DOHMH receives advance payments from the State based on the dollar amounts stipulated in the letter. At the end of the year, unused funds are offset against future spending.

DOHMH monitors the State funding and spending at the contract level. Each contract can have more than one program and each program can have more than one funding source (e.g., Local Assistance, Community Support Services, Adult Family Support, etc.). In addition, one funding source can be used to fund multiple programs (e.g., Out-Patient Clinic, On-Site Rehab, Work Readiness, Home Base Crisis Intervention, etc.). The following chart illustrates the relationship among contracts, programs, and funding sources for mental hygiene services.



This chart is designed for illustrative purposes to explain the relationship among contracts, programs, and funding sources.

¹ The three State agencies affiliated with the State Aid Letters for mental hygiene services are the Office of Mental Health (OMH), Office of People with Developmental Disabilities (OPWDD), and Office of Alcoholism and Substance Abuse Services (OASAS). Throughout the course of the year, each State agency issues revised State Aid Letters in the event of an increase or decrease in the funding sources.

During Fiscal Year 2010, DOHMH had 341 contracts with 219 providers to offer mental hygiene services to over 700 program units. During this period, DOHMH received \$205.8 million in advanced State funding for mental hygiene services, of which \$189.9 million² was allocated directly to these programs.

Objective

The objective of this audit was to determine whether DOHMH has adequate oversight to maximize the use of State funds for mental hygiene services.

Scope and Methodology Statement

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. This audit was conducted in accordance with the responsibilities of the City Comptroller as set forth in Chapter 5, §93, of the New York City Charter.

The scope of this audit was Fiscal Year 2010. Please refer to the Detailed Scope and Methodology at the end of this report for the specific procedures that were conducted.

Discussion of Audit Results

The matters covered in this report were discussed with DOHMH officials during and at the conclusion of this audit. A preliminary draft report was sent to DOHMH officials and discussed at an exit conference held on February 21, 2012. We submitted a draft report to DOHMH officials with a request for comments. We received a written response from DOHMH officials on March 19, 2012. In their response, DOHMH officials agreed to implement two of the three recommendations in the report and disagreed with our recommendation to develop strategies for the reallocation of unspent funds among programs within the same funding source, claiming that there are State restrictions that prohibit at least some such reallocation. Throughout the audit and continuing in its response, DOHMH has asserted that the State prohibits the reallocation of funds among certain programs, even within the same funding source. However, when we have asked DOHMH to provide us with the State regulations or guidelines to corroborate their assertions, officials have been unable to do so, stating that they had nothing in writing. Accordingly, in the absence of adequate evidence to support DOHMH's assertions, we see no reason to alter our findings.

The full text of the DOHMH response is included as an addendum to this report.

² The balance of \$15.9 million (about 7.7 percent) was used to fund administrative services.

FINDINGS AND RECOMMENDATIONS

Our review of DOHMH's oversight of the utilization of State funds revealed that DOHMH needs to improve its monitoring of State funds earmarked for mental hygiene services. Specifically, DOHMH did not develop adequate strategies to maximize the use of the State funds and ensure that all funds made available to it by the State were spent. During Fiscal Year 2010, DOHMH did not distribute \$10.4 million out of \$189.9 million in State funds (5.5 percent). The unused funds remain in the advanced revenue source account to offset against future spending, resulting in an overall reduction in State funding provided.

On a positive note, the audit found that DOHMH established policies and procedures to ensure that State guidelines are adhered to. Specifically, providers are required to submit monthly invoices prior to receiving payments. Providers are also required to submit Quarterly Fiscal Reports³, which detail invoices and line items claimed within a three-month period. DOHMH officials review these documents for accuracy and completeness and disallow unsubstantiated expenditures. In addition, DOHMH complies with State Aid Letters by disbursing only authorized amounts to approved programs. Furthermore, on an annual basis, DOHMH officials perform desk audits on each contract to determine if the spending reported by providers appears appropriate.

However, without improved monitoring and foresight, DOHMH will be hindered in its ability to use all of its available resources effectively and efficiently. As such, there is an increased risk that DOHMH may not be providing services to the greatest number of individuals within the City who are the most in need of assistance.

The details of the findings are discussed in the following sections of this report.

Inadequate Strategies to Maximize Use of State Funds

DOHMH has not adequately planned for and distributed all the funds appropriated by the State for its mental hygiene programs. DOHMH lacks strategies for reallocating State funds within funding sources from one program to another. In addition, DOHMH does not perform any trend analyses to identify early on in the year those programs that may be able to utilize additional funding to maximize the use of the State funds. As a result, in Fiscal Year 2010, rather than utilizing the entire \$189.9 million it allocated to provide services to those individuals in need, DOHMH was unable to distribute \$10.4 million (5.5 percent) of the State funds. Moreover, for Fiscal Years 2008 and 2009, DOHMH underspent \$34.9 million and \$16.5 million⁴ in State funds, respectively. Had DOHMH's planning and distribution efforts been more effective, it is possible that some, if not all, of this money could have been used.

³ DOHMH stated that the reports are an important monitoring tool that are used as the basis for conducting desk audits, substantiating claims, assessing liquidated damages, and determining the final amounts the providers will receive for services rendered during the contract period.

⁴ As of the date of this report, the State close-out process was not finalized for Fiscal Year 2009; therefore, the corresponding number in this report is a projected dollar amount.

DOHMH Response: “We disagree with the auditor’s conclusion that DOHMH under-spent \$10.4 million in FY2010 ... We assert that most of the under-spending cited in the draft audit report represents (i) [\$0.4 million] liquidated damages imposed by desk audit and (ii) [\$7.8 million] restrictive services that the State does not allow to reallocate. Considering the desk audit disallowances imposed by DOHMH and the restrictive programming models and guidelines imposed by the State, DOHMH identified approximately \$2.2 million (1%) out of \$189.9 million in State funds that could have been repurposed to other mental hygiene programs.”

Auditor Comment: Regarding the \$0.4 million in liquidated damages imposed by DOHMH, this amount represents the penalty that providers must pay for not meeting their contracted levels of service. These penalties should not be subsidized by State funds, which would be the case in the scenario presented by DOHMH. Regarding the \$7.8 million that DOHMH claims represents restrictive services, the agency has failed to provide us with any State regulations or guidelines to support its assertion that the agency is prohibited from reallocating funds for certain funding sources among programs providing the same services. In the absence of sufficient evidence to the contrary, we stand by our finding.

DOHMH Response: “While the State allows DOHMH some flexibility to reallocate funds within the same funding stream, certain program types and funding streams are restrictive and cannot be repurposed even during the fiscal year. . . .

“At the exit meeting, DOHMH presented the auditors with an e-mail from the State confirming that the State would not allow us to reallocate funds within these categories of service, even on a one-time basis.”

Auditor Comment: In the February 21, 2012, e-mail to which DOHMH is referring, the State does not prohibit DOHMH from reallocating certain “restrictive” funds among providers within the same funding source. Instead, the opposite appears to be the case. As stated by the State official in the e-mail, “case management funds can only be used for case management services. You cannot move the operating funds around from program to program without reassigning the slots, even on a one time basis.” In other words, based on the State’s response, as long as the slots are reassigned, the operating funds for a program providing case management services can be reassigned to another program providing the same services. Accordingly, in the absence of sufficient evidence to the contrary, we stand by our finding.

No Reallocation Plan for Unspent Funds

DOHMH does not have an established strategic plan in place to reallocate unspent funds from one program to other programs (within the same funding source) that have higher demand for services or a greater capacity to serve additional clients. As a result, there is an increased risk that individuals who are eligible for DOHMH’s mental hygiene services may not always be receiving those services.

On several occasions during our audit, we asked DOHMH officials to provide us with their strategies for reallocating unspent State funds. They initially responded that they do not reallocate unspent funds. DOHMH officials claimed that they did not have much leeway in redirecting unused funds from one program to another. However, while the provisions do, in fact, stipulate that the use of the funding is limited to each funding source, there is an allowance for budget modifications in the event that DOHMH needs to change the distribution of funds between providers within the same funding source. When questioned about this, DOHMH officials told us that if a program requires more funds than initially allocated, the program officials and the officials from DOHMH's Office of Budget Administration will determine the reduction and reallocation of funds within the same funding source based on the service needs of programs. When asked to provide us with a listing of State funds that were reallocated within the last three years, DOHMH responded that it was not able to separate the reallocated funds from other adjusted funds in its computer system. As such, we have no way of verifying DOHMH's claim that it reallocates funds within certain programs. Furthermore, it appears that DOHMH does not have an established mechanism in place for systematically tracking the reallocation of funds among programs within the same funding source.

DOHMH Response: "During the exit meeting, the auditors were provided with copies of example monthly budget meeting documents to demonstrate the ongoing monitoring of state and city spending plans."

Auditor Comment: The monthly meeting budget documents specify DOHMH's spending plans due to an increase or decrease in its budget. These documents do not provide evidence of DOHMH's strategies and efforts to reallocate underspent funds nor do the documents offer any evidence of DOHMH's long-term plans to avoid chronic underspending.

Moreover, we found little evidence to indicate that DOHMH is working proactively with the State to obtain greater flexibility in utilizing State funds. DOHMH officials cited funding restrictions imposed by the State as a reason why millions of dollars are unused on an annual basis, emphasizing that they were bound by the guidelines set forth in the State Aid Letters. Although DOHMH officials claimed that they attempted to work with State officials to modify the restrictions, and they cited as an example of their efforts the Fiscal Year 2011 collapse of 10 case management codes into two codes, they provided little evidence of their communication (letters, emails, etc.) with the State on this issue.

Without sufficient evidence regarding DOHMH's communication with the State, we cannot evaluate or comment on its adequacy. However, DOHMH should continue to make every effort to ensure that unused State funds are redirected to other service providers within the various funding sources. Additionally, we believe that DOHMH should continue to work with the State to amend current regulations and statutes to allow for State funds to be spent in a more flexible manner that serves the best interest of DOHMH's recipients of mental hygiene services.

DOHMH Response: "...DOHMH must abide by the State Spending Plan Guidelines, which was provided to the auditors. Despite the restrictions and limited flexibility imposed by the State rules and regulations, DOHMH has been working closely with the

State not only to reallocate unspent funds but also to seek greater flexibility in utilizing State funds.”

Auditor Comment: While we are well aware of the State Spending Plan Guidelines, as stated previously, there is an allowance for budget modifications in the event that DOHMH needs to change the distribution of funds between providers within the same funding source. Moreover, while it may be true that DOHMH has been working closely with the State, we received no evidence to support this claim and, therefore, cannot evaluate the sufficiency of DOHMH’s efforts.

No Trend Analysis of State Fund Spending

DOHMH does not perform trend analysis of the annual spending by its contracted providers to help identify providers who are in danger of under-utilizing State funds. DOHMH officials acknowledge that under-spending occurs on an annual basis; however, they claim that there is no consistent pattern and that a specific program or contractor might experience under-spending one year, but not the following year. DOHMH officials attributed the under-spending to various reasons, including staff vacancies, delayed implementation of new programs, and disallowances of unauthorized or unsubstantiated costs found by DOHMH desk audits. While this may, in fact, be true, it does not negate the need to perform a trend analysis on a quarterly basis and assist providers in reaching their program goals.

Although providers are required to submit monthly invoices and Quarterly Fiscal Reports, DOHMH officials are not proactive in performing trend analyses of each provider’s spending pattern so as to enable them to predict those providers that may possibly be under-spending the State funds. In addition, DOHMH does not ascertain whether there are certain programs within specific funding codes that are more successful than others in maximizing their use of available funds. As a result, DOHMH fails to identify at an early stage of the operating period those contracts whose funds may not be fully utilized. The identification of such tendencies may serve as an indicator that DOHMH officials can use to work with the providers to deal with operating issues and develop strategies in time to maximize the use of the State funds.

Recommendations

DOHMH should:

1. Develop strategies for the reallocation of unspent funds among programs within the same funding source.

DOHMH Response: “We disagreed with the auditors’ conclusion that DOHMH’s strategies are inadequate to maximize the use of State funds.”

Auditor Comment: As stated in this report, even though we have requested them on several occasions, DOHMH officials have been unable to provide us with their strategies for reallocating unspent State funds. We, therefore, have no assurance that such strategies exist. Accordingly, we reaffirm this recommendation.

2. Continue working with the State to obtain greater flexibility in using State funds.

DOHMH Response: “DOHMH generally agrees with this recommendation; however, we are ultimately held to the State requirements and rules. While DOHMH already obtained greater flexibility through ongoing open communication with the State, failure to abide by the State’s Spending Plan Guidelines could result in disallowances and put New York City at risk for a revenue shortfall.”

Auditor Comment: In “generally” agreeing with this recommendation, DOHMH argues against a position we do not even take. Nowhere in this report do we suggest that DOHMH not comply with State requirements regarding the use of State funding. We are merely recommending that DOHMH continue its efforts to obtain greater flexibility in using those funds.

3. Perform, on a quarterly basis, trend analyses of the spending of State funds and work with providers on a continuous basis to address issues that may negatively affect the ability to utilize State funds.

DOHMH Response: “DOHMH agrees with the above recommendation and will implement a quarterly trend analysis.”

DETAILED SCOPE AND METHODOLOGY

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. This audit was conducted in accordance with the responsibilities of the City Comptroller as set forth in Chapter 5, §93, of the New York City Charter.

The scope of this audit was Fiscal Year 2010.

To achieve our audit objective and to obtain an understanding of DOHMH's oversight of the utilization of State funds, including its administration, allocation, and claiming process, we interviewed DOHMH's Assistant Commissioner from the Bureau of Budget and Revenue, the Director of State Aid and Administration Claiming, and staff from Budget Analysis. To determine DOHMH's monitoring efforts concerning the spending of State funds, we interviewed officials from the Contract Management Division. To gain an understanding of how DOHMH officials use the Funding and Contract Management System to assist them in tracking contracts funded by different sources, we attended a hands-on demonstration of the system. To determine whether DOHMH has developed procedures or strategies to ensure that it maximizes the use of funding provided by the State, we interviewed DOHMH's Assistant Commissioner from the Bureau of Budget and Revenue.

To assess whether DOHMH had internal controls relating to our audit objective, we reviewed and used the following sources as criteria applicable to our audit objective: (1) The Office of Mental Health's State Aid Letter General Provisions for Fiscal Year 2010, and (2) the New York State (OMH, OPWDD, and OASAS) Consolidated Budget Reporting and Claiming Manual for Fiscal Year 2010. DOHMH referred to both of these documents as guidelines pertaining to State funding. In addition, we reviewed the State Aid Letters from OMH, OPWDD, and OASAS, and the corresponding sector allocations for Fiscal Year 2010 to determine the amount of State funding DOHMH received and the funding allocation details for the fiscal year.

To determine the amount of Fiscal Year 2010 State funds that were allocated and spent on mental hygiene services, we analyzed DOHMH's contract finalization summary data for the fiscal year. This information contained budget data, claims submitted by the providers, and claims approved by DOHMH. To evaluate DOHMH's monitoring of provider claims for reimbursement, we reviewed a sample of 22 contracts (totaling \$7,082,736) out of the 219 vendors DOHMH contracted with in Fiscal Year 2010 and looked for evidence of DOHMH's review of invoices and Quarterly Fiscal Reports, as well as the finalization status of the contracts. In addition, we reviewed the desk audits performed by the State Office of Mental Health of DOHMH's Local Assistance State Aid Claims for Fiscal Year 2008. Furthermore, we compared DOHMH's State funding and spending data for a three-year period (Fiscal Years 2008 through 2010) to determine whether there was an identifiable trend in spending.



NEW YORK CITY DEPARTMENT OF
HEALTH AND MENTAL HYGIENE
Thomas Farley, MD MPH
Commissioner

Patsy Yang, Dr. PH
Executive Deputy Commissioner
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March 19, 2012

H. Tina Kim
Deputy Comptroller for Audit
Office of the New York City Comptroller
1 Centre Street, Room 1100
New York, NY 10007-2341

Re: Audit Report on the Oversight and
Monitoring of Mental Hygiene State
Funds Administered by the Department
Of Health and Mental Hygiene
MG11-139A

Dear Deputy Comptroller Kim:

We have received and reviewed your draft audit report regarding the oversight and monitoring of Mental Hygiene State Funds administered by the Department of Health and Mental Hygiene (DOHMH).

The auditors acknowledge that DOHMH has policies and procedures to ensure its compliance with the State's guidelines and that DOHMH complies with State Aid Letters by disbursing only authorized amounts to approved programs. However, the auditors raised the issue that DOHMH did not have adequate strategies to maximize the use of State Funds.

We disagree with the auditors' conclusion that DOHMH's strategies are inadequate. While operating within the constraints of the State's guidelines, our strategy is to effectively monitor performance of all contractors through ongoing programmatic evaluations, site visits, and desk audits. In addition, a monthly finance meeting with program leaders is held to discuss plans for unallocated funds, current budget projections, and spending patterns/commitments.

DOHMH's attached response to the issue and the auditors' recommendations details DOHMH's position.

We appreciate the efforts and professionalism of your staff in the performance of this audit. If you have any questions or need further information, please contact Sara Packman, Assistant Commissioner, Audit Services, at (347) 396-6679.

Sincerely,

A handwritten signature in black ink, appearing to read 'P. Yang', is written over the printed name.

Patsy Yang, Dr. PH
Executive Deputy Commissioner of
Health & Chief Operating Officer

cc: Thomas Farley, Commissioner, MD MPH
Adam Karpati, MD MPH
Assunta Rozza
Sara Packman

**RESPONSE TO THE NEW YORK CITY COMPTROLLER'S AUDIT OF
THE DEPARTMENT OF HEALTH AND MENTAL HYGIENE'S OVERSIGHT AND
MONITORING OF MENTAL HYGIENE STATE FUNDS
Audit MG11-139A**

The Department of Health and Mental Hygiene (DOHMH) reviewed the draft audit report on the DOHMH's oversight and monitoring of Mental Hygiene State Funds and thanks the auditors for the opportunity to respond. The objective of the audit was to determine whether DOHMH has adequate oversight to maximize the use of State funds for mental hygiene services, excluding Early Intervention (EI). The scope of this audit was Fiscal Year 2010.

The auditors acknowledge that (i) DOHMH has policies and procedures to ensure its compliance with the State's guidelines, (ii) DOHMH requires its providers to submit monthly invoices and Quarterly Fiscal Reports (QFRs), (iii) DOHMH officials review the monthly invoices and the QFRs for accuracy and completeness and disallow unsubstantiated expenditures, and (iv) DOHMH complies with State Aid Letters by disbursing only authorized amounts to approved programs and performs desk audits on each contract to determine if the spending reported by providers appears appropriate.

The draft audit report concludes that, during the audit period, DOHMH did not develop adequate strategies to maximize the use of State funds and to ensure that all funds made available to it by the State were spent. It also states that, during Fiscal Year 2010, DOHMH did not distribute \$10.4 million out of \$189.9 million in State funds (5.5 percent).

The auditors made three recommendations that DOHMH should:

- *Develop strategies for the reallocation of unspent funds among programs within the same funding source.*
- *Continue to work with the State to obtain greater flexibility in using State funds.*
- *Perform, on a quarterly basis, trend analyses of the spending of State funds and work with providers on a continuous basis to address issues that may negatively affect their ability to utilize State funds.*

Although DOHMH appreciates the auditors' work and recommendations, we disagree that during the audit period DOHMH did not develop adequate strategies to maximize the use of State funds. When possible, DOHMH reallocated unspent funds among programs and gained flexibility in using State funds through open continuous communication with the State. Our following response to the auditors' issue and recommendations details how DOHMH has reallocated unspent funds and obtained greater flexibility.

Issue: Inadequate Strategies to Maximize Use of State Funds

The auditors conclude that DOHMH has inadequate strategies to maximize the use of State funds. The auditors support this issue by stating that (a) DOHMH does not have a strategic plan for reallocating unspent funds and (b) the audit found little evidence to demonstrate that DOHMH is working proactively with the State to obtain greater flexibility in utilizing State funds.

We disagree with the auditors' conclusion that DOHMH's strategies are inadequate to maximize the use of State funds. DOHMH's goal is to promote high-quality services through improved management of public health funds. While operating within the constraints of the State's guidelines, our strategy is to effectively monitor performance of all contractors through ongoing programmatic evaluations, site visits, and desk audits.

DOHMH's tactical plan is embedded in its daily process. DOHMH holds a monthly finance meeting with its program leaders to outline current budget projections and spending patterns/commitments. During the monthly finance meeting, we also discuss "spend-down" plans for unallocated funds in addition to current contractual commitments. During the audit period, this process existed. New commitments or contractual obligations are monitored against the current budget, which includes projections of additional funds we anticipate from the State. During the exit meeting, the auditors were provided with copies of example monthly budget meeting documents to demonstrate the ongoing monitoring of state and city spending plans.

DOHMH is required to comply with all state rules and regulations surrounding the award of funds by the respective State mental hygiene disability offices¹. Specifically, DOHMH must abide by the State Spending Plan Guidelines, which was provided to the auditors. Despite the restrictions and limited flexibility imposed by the State rules and regulations, DOHMH has been working closely with the State not only to reallocate unspent funds but also to seek greater flexibility in utilizing State funds. Below are some recent activities that describe how proactive DOHMH has been in redirecting under-spent State funds and obtaining greater flexibility in using State funds.

1. In FY2011, the three State disability offices instructed DOHMH to reduce contractor budget by 1.1% as a result of the Federal Medicaid Assistance Percentage (FMAP) cut. DOHMH proactively requested and received the State approval to use under-spending to offset the mandated 1.1% Federal Medicaid Assistance Percentage (FMAP) cut. As a result, the entire cut (totaling close to \$2.0 million) was absorbed by providers' under-spending.
2. In FY2012, DOHMH used under-spending (i) to provide \$250,000 of funding enhancements to existing contracts to support consumer training needed by the community to help with the transition to Health Homes in New York State and (ii) to provide \$750,000 of support to existing programs that were adversely impacted by changes to Medicaid regulations and were experiencing major operating gaps.

Recommendation

1. DOHMH should develop strategies for the reallocation of unspent funds among programs within the same funding source.

DOHMH Response

We disagree with the auditors' conclusion that DOHMH under-spent \$10.4 million in FY2010 and with their recommendation. We assert that most of the under-spending cited in the draft audit report

¹ The respective State mental hygiene disability offices are the Office of Mental Health (OMH), Office of People with Developmental Disabilities (OPWDD), and Office of Alcoholism and Substance Abuse Services (OASAS).

represents (i) liquidated damages imposed by desk audit and (ii) restrictive services that the State does not allow to reallocate. Considering the desk audit disallowances imposed by DOHMH and the restrictive programming models and guidelines imposed by the State, DOHMH identified approximately \$2.2 million (1%) out of \$189.9 million in State funds that could have been repurposed to other mental hygiene programs.

The table below denotes the actual unspent State funds of \$2.2 million compared to the total under-spending of \$10.4 million, which is derived by the auditors.

FY2010 Under-Spent Amounts Analysis

Description for Under-spending	Under-spending Amounts (in millions)
Total under-spending	\$10.4
Liquidated damages imposed by desk audit	\$0.4
Restrictive funding	\$7.8
State funding that could potentially be reallocated	\$2.2
Total State funding dedicated to DOHMH Programs	\$189.9
Percentage of under-spending that could have been reallocated	1%

(i) **Liquidated damages imposed by desk audit**

A key component of DOHMH's programmatic monitoring revolves around monitoring the units of service administered by each program unit. The units of service are prescribed in the Spending Plan Guidelines and Consolidated Budget Reporting Manual issued by the State of New York. DOHMH's contract with providers clearly outlines that each fiscal year providers must achieve the target units of service of 90% for housing programs and at least 85% for other than housing programs. To hold providers accountable for meeting their contracted levels of service, the contract also states DOHMH's liquidated damages policy. Desk audit identifies and imposes the liquidated damages by applying 10% reduction in the total expense amount claimed against providers who failed to meet the contracted levels of service. In FY2010, DOHMH imposed over \$0.4 million in liquidated damages. The details supporting the imposed liquidated damages amount was provided to the auditors.

(ii) **Restrictive services that the State does not allow to reallocate**

While the State allows DOHMH some flexibility to reallocate funds within the same funding stream, certain program types and funding streams are restrictive and cannot be repurposed even during the fiscal year. Examples of restricted programs are detailed below.

- **Assertive Community Treatment (ACT) and Case Management** – These programs are linked to a state-mandated revenue model and a pre-defined number of Case Management units. The State does not allow DOHMH to reallocate funds between individual providers even if the unspent funds are within the same funding code, for it would change the State's revenue model. At the exit meeting, DOHMH presented the auditors with an e-mail from the State confirming that the State would not

allow us to reallocate funds within these categories of service, even on a one-time basis. In FY2010, the aggregate under-spending for both ACT and Case Management was \$3.0 million.

- Housing programs - State funding for housing programs is allocated based on a bed rate. The State requires DOHMH to report the number of beds contracted by providers annually. Under-spending in individual contracts cannot be diverted to other housing programs because the funding is linked to a specific bed and, theoretically, DOHMH cannot procure beds on a one-time basis. In FY2010, the aggregate under-spending in the housing programs was \$4.8 million.

The aggregate under-spending in FY2010 for ACT, Case Management, and Housing programs is accounted for \$7.8 million.

Therefore, DOHMH generally agrees that the under-spent of \$2.2 million could have been repurposed to other mental hygiene programs.

Recommendation

2. DOHMH should continue to work with the State to obtain greater flexibility in using State funds

DOHMH Response

DOHMH generally agrees with this recommendation; however, we are ultimately held to the State requirements and rules. While DOHMH already obtained greater flexibility through ongoing open communication with the State, failure to abide by the State's Spending Plan Guidelines could result in disallowances and put New York City at risk for a revenue shortfall.

Recommendation

3. DOHMH should perform, on a quarterly basis, trend analyses of the spending of State funds and work with providers on a continuous basis to address issues that may negatively affect their ability to utilize State funds

DOHMH Response

DOHMH agrees with the above recommendation and will implement a quarterly trend analysis.

The Division of Mental Hygiene is enhancing its desk audit of the Quarterly Financial Reports that will facilitate under-spending projection and incorporate trend analysis of contractors' spending.