NEW YORK DID NOT PROVIDE ADEQUATE STEWARDSHIP OF SUBSTANCE ABUSE PREVENTION AND TREATMENT BLOCK GRANT FUNDS

Inquiries about this report may be addressed to the Office of Public Affairs at Public.Affairs@oig.hhs.gov.

Gloria L. Jarmon
Deputy Inspector General
for Audit Services

March 2019
A-02-17-02009
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OFFICE OF AUDIT SERVICES FINDINGS AND OPINIONS

The designation of financial or management practices as questionable, a recommendation for the disallowance of costs incurred or claimed, and any other conclusions and recommendations in this report represent the findings and opinions of OAS. Authorized officials of the HHS operating divisions will make final determination on these matters.
Why OIG Did This Review
In Federal fiscal year 2015, the Substance Abuse and Mental Health Services Administration (SAMHSA) provided approximately $1.8 billion to States, territories, and tribes under the Substance Abuse Prevention and Treatment Block Grant (SABG) to plan, implement, and evaluate activities that prevent and treat substance abuse, including opioid treatment services. SAMHSA awarded $111.1 million in SABG funds to New York for the period October 2014 through September 2016.

This review is part of our efforts to ensure the integrity and proper stewardship of grant funds used to combat the opioid crisis.

Our objective was to determine whether New York provided adequate stewardship of SABG funds.

How OIG Did This Review
We reviewed the State agency’s controls for accounting for SABG funds and SAMHSA’s efforts to monitor and oversee SABG funds. To test New York’s controls for accounting for SABG funds, we reviewed a nonstatistical sample of actual SABG program expenditures for one opioid treatment provider’s fiscal year, totaling $3.1 million.

New York Did Not Provide Adequate Stewardship of Substance Abuse Prevention and Treatment Block Grant Funds

What OIG Found
New York failed to trace funds to a level of expenditure adequate to establish that the funds were used for the SABG program’s intended purpose. Specifically, New York used estimated expenditure data to advance SABG funds to providers and subsequently reported these payments as expenditures to SAMHSA. In addition, New York did not record information (e.g., provider names) needed to effectively account for or trace the payments to SABG expenditures. By not implementing procedures for reporting actual expenditures and tracing payments, New York may have retained unexpended funds and hindered its ability to ensure that substance abuse prevention and treatment programs received the funds needed to provide timely interventions to people at risk for and suffering from substance use disorders. New York is responsible for implementing effective accounting procedures; however, a lack of guidance from SAMHSA contributed to its inadequate stewardship of the SABG funds.

In addition, New York does not have procedures in place to determine if providers are accurately reporting Medicaid revenues. Specifically, the one opioid treatment provider we reviewed received excess SABG funding from New York totaling more than $1.8 million because the provider underreported Medicaid revenue on its fiscal report. This occurred because State agency staff who reconciled providers’ fiscal reports did not have access to necessary data.

What OIG Recommends and Auditee Comments
We recommend that SAMHSA provide formal guidance to New York on accounting for and reporting SABG expenditures and any unexpended funds. We also recommend that SAMHSA recover $1.8 million from New York.

We recommend that New York (1) review the revenues reported on the fiscal reports of providers not reviewed in this audit and recover any excess unexpended funds and (2) develop and implement procedures to ensure that the necessary staff have access to Medicaid revenue data and reconcile the data with the revenue reported on the providers’ fiscal reports.

In written comments on our draft report, SAMHSA did not concur with our first recommendation and concurred with our second recommendation. New York generally agreed with our recommendations and described actions that they planned to take to address them.

The full report can be found at https://oig.hhs.gov/oas/reports/region2/21702009.asp.
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INTRODUCTION

WHY WE DID THIS REVIEW

In Federal fiscal year (FFY) 2015, the Substance Abuse and Mental Health Services Administration (SAMHSA) provided approximately $1.8 billion to States, territories, and tribes under the Substance Abuse Prevention and Treatment Block Grant (SABG) program. Grantees use the funds to plan, implement, and evaluate activities that prevent and treat substance abuse, including opioid treatment services. In New York, the Office of Alcoholism and Substance Abuse Services (State agency) administers SABG funds and is responsible for complying with applicable Federal grant requirements.

Opioid abuse and overdose deaths are at epidemic levels in the United States. This review is part of the Office of Inspector General’s efforts to ensure the integrity and proper stewardship of grant funds used to combat the opioid crisis.

OBJECTIVE

Our objective was to determine whether the State agency provided adequate stewardship of SABG funds.

BACKGROUND

Substance Abuse Prevention and Treatment Block Grant

The SABG is a noncompetitive formula grant administered by SAMHSA. SAMHSA awards SABG funds on an annual basis, and the funds are available for obligation and expenditure for a 2-year period. SAMHSA has oversight responsibilities to ensure State compliance with Federal requirements. These requirements include obligating, expending and accounting for SABG funds. SAMSHA also must monitor the States’ use of these SABG funds by reviewing Federal Financial Reports (FFRs) received from the States at the end of each 2-year expenditure period.

New York’s Substance Abuse Prevention and Treatment Block Grant

SAMHSA awarded a total of $111.1 million in FFY 2015 SABG funds to the State agency, which were available for obligations and expenditures for the period October 1, 2014, through September 30, 2016. The State agency expended these SABG funds by making monthly advance payments to substance abuse prevention and treatment service providers, including opioid treatment providers, based on amounts budgeted by these providers at the beginning of their respective fiscal years (FYS). These monthly advance payments represented the providers’ budgeted net deficits—the difference between their expected revenue (e.g., Medicaid, private insurance, and patient payments) and program expenses. The State agency made the monthly advance payments either directly to providers or to county agencies that contracted with providers. The State agency recorded the monthly advance payments as expenditures in New
York’s Statewide Financial System (financial system) and—at the end of the 2-year SABG award period—claimed the monthly advance payments as expenditures on its FFR submitted to SAMHSA.

Providers submitted Consolidated Fiscal Reports (fiscal reports) to the State agency detailing their actual program expenses, revenue collections, and the resulting net deficit (if any) at the end of their respective FYs. Providers were eligible to receive funding from the State agency up to their actual net deficit amount, referred to as “SABG expenditures.” The State agency reconciled its monthly advance payments made to providers with SABG expenditures reported by the providers to determine if the providers received more SABG funds than their SABG expenditures, referred to as “unexpended funds.”

HOW WE CONDUCTED THIS REVIEW

We reviewed the State agency’s controls for accounting for SABG funds and SAMHSA’s efforts to monitor and oversee SABG funds. Our review of internal controls was limited to the State agency’s systems and procedures and SAMHSA’s guidance to the State agency to account for, report on, and monitor SABG funds.

The State agency’s financial system tracks budgeted monthly advance payments to providers—not their actual SABG expenditures. Further, the financial system does not track expenditures related to specific SABG award periods because providers may receive multiple SABG awards during each of their FYs. To overcome these limitations, we reviewed a nonstatistical sample of actual SABG program expenditures for one opioid treatment provider for one FY, totaling $3,087,079.

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 objectives.

Appendix A contains the details of our audit scope and methodology.

FINDINGS

The State agency did not provide adequate stewardship of SABG funds and failed to trace funds to a level of expenditure adequate to establish that the funds were used for the SABG program’s intended purpose, as required by Federal regulation. Specifically, the State agency did not have procedures to (1) effectively account for SABG funds, (2) ensure that it alerted SAMHSA about unexpended funds, and (3) verify that providers were accurately reporting

1 The State agency’s lack of procedures to trace SABG funds to expenditures will be discussed further under the Findings section.
Medicaid revenues. In addition, the State agency did not update its financial system to reflect actual SABG expenditures.

The State agency did not effectively account for SABG funds because it considered SABG funds as being expended when it made monthly advance payments to providers. The State agency subsequently reported these advance payments as expenditures on its FFR that it sent to SAMHSA. Because the State agency considered all of its SABG funds as expended, it did not develop procedures to (1) establish that SABG funds were used for SABG purposes, (2) alert SAMHSA about any unexpended funds, or (3) verify that providers were accurately reporting revenue as part of the determination of the net deficit amount. State agency officials stated that they considered the State agency’s FFR to SAMHSA to have accurately included actual SABG expenditures. However, SAMHSA officials stated that they were not aware that the State agency reported budgeted—not actual—SABG expenditures on its FFR. Further, because SAMHSA was not aware that the State agency reported budgeted SABG expenditures on its FFR, SAMHSA did not provide guidance to effectively ensure the integrity of SABG grant funds. Specifically, SAMHSA did not provide written guidance to the State agency on accounting for and reporting actual SABG expenditures.

We also found that one opioid treatment provider received excess SABG funding, totaling $1,800,212, from the State agency because the provider under-reported its Medicaid revenue. This occurred because the State agency staff who reconciled providers’ fiscal reports did not have access to State Medicaid data.

THE STATE AGENCY DID NOT HAVE EFFECTIVE ACCOUNTING PROCEDURES

SABG funds awarded to a state are available for obligation and expenditure until the end of the fiscal year following the fiscal year for which the amounts were paid (42 U.S.C. § 300x-62).

Federal regulations require grantees to have fiscal controls and accounting procedures that permit the tracing of grant funds to expenditures so it can be established that the funds were used in accordance with the statute authorizing the block grant (45 CFR § 96.30(a)).

SAMHSA may require a State to return SABG funds that were not expended in accordance with the agreements required under the SABG program (42 U.S.C. § 300x-55). The Notices of Award (NOAs) for the SABG funds under audit here required the State agency to comply with 45 CFR § 96.30(a) (NOA 2B08TI010040-14, p. 2 and NOA 2B08TI010040-15, p. 2).

The State agency lacked procedures to trace SABG funds to actual SABG expenditures so that it could determine that the funds were expended in accordance with Federal requirements. The State agency records its monthly advance payments to providers in its financial system—not information needed to allow for the tracing of the monthly advance payments to SABG

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2 We notified the State agency of this. We are not identifying the provider in this report because it was not the subject of this audit.
expenditures. For example, the State agency did not record providers’ names when payments were made to county agencies that passed the SABG funds to those providers. The State agency also did not record other information needed to accurately trace SABG funds, such as providers’ FYs or the substance abuse prevention and treatment programs funded. Accounting procedures to trace SABG funds to expenditures aid States in ensuring that grant funds are used to quickly address urgent needs for substance abuse prevention and treatment. By not implementing these procedures, the State agency may have hindered its ability to ensure that substance abuse prevention and treatment programs received the funds needed to provide timely interventions to people at risk for and suffering from substance use disorders.

Further, if a provider had unexpended funds, the State agency lacked procedures to identify the SABG award from which the unexpended funds originated, even though this information was available, or to alert SAMHSA about the unexpended funds.

As a result, the State agency could not determine if there were unexpended funds associated with expired awards. Rather, the State agency’s procedures would have allowed providers to retain these funds beyond their award period. The State agency would then have recovered these unexpended funds by offsetting future monthly advance payments to the providers. Such retention of funds would violate the terms and conditions of the SABG award and would be grounds for SAMHSA to recover the funds in accordance with 42 U.S.C. § 300x-55.

The State agency’s ineffective accounting procedures also resulted in the State agency not updating its financial system and amending its FFRs to reflect actual SABG expenditures and any unexpended funds. Without accurate expenditure information, SAMHSA cannot ensure that SABG funds are spent for designated purposes.

The State agency did not effectively account for SABG funds because it considered SABG funds expended when the State agency made monthly advance payments to providers. Despite making awards based on estimates and reporting those awards on the FFR, State agency officials stated that the State agency’s FFR to SAMHSA accurately included actual SABG expenditures. However, the State did not adjust the FFR to reflect actual numbers when they were received. SAMHSA officials stated that they were not aware that the State agency reported budgeted—not actual—SABG expenditures on its FFR. Further, because SAMHSA was not aware that the State agency reported budgeted SABG expenditures on its FFR, SAMHSA did not provide guidance to effectively ensure the integrity of SABG grant funds. Specifically, SAMHSA did not provide guidance on the necessity to account for SABG expenditures by award period, return unexpended SABG funds to the Federal Government, or amend the FFR when actual SABG expenditure information becomes available.

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3 45 CFR § 96.30(a).
THE STATE AGENCY DID NOT HAVE PROCEDURES TO VERIFY MEDICAID REVENUE REPORTED BY PROVIDERS

Federal regulations require grantees to have fiscal controls and accounting procedures that permit the tracing of grant funds to expenditures so it can be established that the funds were used in accordance with the statute authorizing the block grant (45 CFR § 96.30(a)). Under this provision, the State’s laws and procedures covering the administration and expenditure of its own funds will govern the administration and expenditure of SABG funds (45 CFR § 96.30(a)).

The State agency is required to recover money when a provider has proven to have underreported its revenue or submitted claims containing unallowable, unapproved, or inappropriate expenditures (State agency’s Administrative and Fiscal Guidelines for Office of Alcoholism and Substance Abuse Services-Funded Providers (revised Nov. 2015)). SAMHSA may require a State to return SABG funds that were not expended in accordance with the agreements required under the SABG program (42 U.S.C. § 300x-55). The NOAs for the SABG funds required the State agency to comply with 45 CFR § 96.30(a) (NOA 2B08TI010040-14, p. 2 and NOA 2B08TI010040-15, p. 2).

We determined that the State agency did not have procedures to verify Medicaid revenue reported by SABG providers. Specifically, the State agency did not reconcile providers’ reported Medicaid fee-for-service revenue with actual Medicaid information in New York’s Medicaid Management Information System (MMIS). For the opioid treatment provider that we reviewed, the State agency made monthly advance payments totaling $3,087,079 for the period July 2015 through June 2016 from two of the State agency’s SABG awards. After the awards had expired, the provider reported to the State agency that its actual program revenue included $7,131,856 of Medicaid fee-for-service revenue. However, we determined that the provider’s actual Medicaid fee-for-service revenue (as indicated in the MMIS) was $8,932,068—a difference of $1,800,212. Because the provider is only eligible to receive funding from the State agency up to its actual SABG expenditures (the difference between its actual program revenue and expenditures), this difference represents unexpended funds that the State agency should have reported and returned to SAMHSA.

According to the State agency, this occurred because State agency staff who reconciled providers’ fiscal reports did not have access to MMIS data.

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4 New York’s MMIS is administered by the New York State Department of Health, which makes the MMIS data available to the State agency.

5 We reviewed the supporting documentation for the monthly advance payments made to the provider and then traced these payments to the State agency’s financial system. This allowed us to identify from which SABG awards the State agency made the advance payments.

6 Our calculation does not account for the potential underreporting of Medicaid fee-for-service revenues by other SABG providers because we did not review revenues reported by other providers.
RECOMMENDATIONS

We recommend that SAMHSA:

- provide formal guidance to the State agency on:
  - accounting for SABG expenditures,
  - alerting SAMHSA about any unexpended funds, and
  - amending the FFR to reflect actual SABG expenditures; and
- recover $1,800,212 from the State agency.

We recommend that the State agency:

- review the revenues reported on the fiscal reports of providers not reviewed in this audit and recover any excess unexpended funds and
- develop and implement procedures to ensure that the necessary staff have access to Medicaid revenue data and reconcile the data with the revenue reported on providers’ fiscal reports.

SUBSTANCE ABUSE AND MENTAL HEALTH SERVICES ADMINISTRATION COMMENTS

In written comments on our draft report, SAMHSA did not concur with the first recommendation we made to it and concurred with our second recommendation (financial recovery). While SAMHSA stated that it did not concur that it provided inadequate guidance to SABG award recipients, it stated that it will reinforce existing requirements with SABG award recipients and will address accounting for SABG expenditures, alerting SAMHSA about any unexpended funds, and amending the FFR to reflect actual SABG expenditures. In addition, SAMHSA stated that it will review and recover any excess SABG funds retained by the provider referenced in this report. We commend SAMHSA for committing to increasing its ongoing oversight of its block grant programs. SAMHSA’s comments are included in their entirety as Appendix B.

OFFICE OF ALCOHOLISM AND SUBSTANCE ABUSE SERVICES COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE

In written comments on our draft report, the State agency generally agreed with the first recommendation we made to it and agreed with our second recommendation.

Regarding our first recommendation, the State agency stated that it will review reported revenues of providers funded during FFY 2015 to determine the accuracy of the reported

New York’s Substance Abuse Prevention and Treatment Block Grant (A-02-17-02009) 6
revenues. The State agency indicated that providers should not retain excess revenues; however, to facilitate its compliance with our recommendation, the State agency requested our work papers so that it can validate the methodology we used to make the recommendation as well as our recommendation to SAMHSA that it recover funds related to the opioid treatment provider that we reviewed. Regarding our second recommendation, the State agency indicated that it will work to develop policies and procedures to provide authorized staff with access to Medicaid data that will be used to reconcile Medicaid claims with provider reported revenues. The State agency’s comments are included in their entirety as Appendix C.

We provided the State agency with the work papers we used to identify the unexpended funds retained by the opioid treatment provider that we reviewed.
APPENDIX A: AUDIT SCOPE AND METHODOLOGY

SCOPE

We reviewed the State agency’s controls for accounting for SABG funds and SAMHSA’s efforts to monitor and oversee SABG funds. Our review of internal controls was limited to the State agency’s systems and procedures and SAMHSA’s guidance to the State agency to account for, report on, and monitor SABG funding. To test the State agency’s procedures, we reviewed a nonstatistical sample of actual SABG program expenditures for one opioid treatment provider for one FY, totaling $3,087,079.

METHODOLOGY

To accomplish our objective, we:

- reviewed applicable Federal and State requirements;
- reviewed the State agency’s grant award notices;
- interviewed SAMHSA officials to gain an understanding of the guidance SAMHSA provided to the State agency to account for SABG funds;
- obtained a general understanding of the State agency’s internal controls to account for, report on, and monitor SABG funds;
- selected one opioid treatment provider awarded SABG funds by the State agency and, for that provider:
  - obtained fiscal reports and documentation for monthly advance payments made during FY 2016;
  - reconciled its advance payments with the State agency’s financial system;
  - reviewed its policies and procedures for collecting and reporting revenue on its fiscal report;
  - reconciled the amount of Medicaid fee-for-service revenue reported on its fiscal report with Medicaid fee-for-service data in the MMIS, and

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7 We selected this provider because it was awarded the most SABG funds by the State agency during provider FY 2016 of those opioid treatment providers that had final fiscal reports submitted to the State agency at the time we began our review (August 2017).
calculated the amount of revenue not reported to the State agency on its fiscal report; and

- discussed the results of our review with SAMHSA and State agency officials.

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 objectives.
TO: Gloria L Jarmon  
Deputy Inspector General for Audit Services  
Department of Health and Human Services Office of Inspector General

FROM: Assistant Secretary for Mental Health and Substance Use

SUBJECT: OIG Draft Report “New York Did Not Provide Adequate Stewardship of Substance Abuse Prevention and Treatment Block Grant Funds (A-02-17-02009)

The Substance Abuse and Mental Health Services Administration (SAMHSA) has reviewed the subject document and non concurs with recommendation number one, and concurs with recommendation number two. SAMHSA offers the attached comments for consideration.

Elinore F. McCance-Katz, M.D., Ph.D.
GENERAL COMMENTS OF SUBSTANCE ABUSE AND MENTAL HEALTH SERVICES ADMINISTRATION (SAMHSA) ON THE OFFICE OF THE INSPECTOR GENERAL DRAFT REPORT ENTITLED NEW YORK DID NOT PROVIDE ADEQUATE STEWARDSHIP OF SUBSTANCE ABUSE PREVENTION AND TREATMENT BLOCK GRANT FUNDS (A-02-17-02009)

Recommendation 1

SAMHSA should provide formal guidance to New York on accounting for SABG expenditures, alerting SAMHSA about any unexpected funds, and amending the FFR to reflect actual SABG expenditures.

SAMHSA does not concur that it provided inadequate guidance to SABG recipients. Rather, SAMHSA references the applicable requirement from 45 CFR 96.30(a) in the Notice of Award for every SABG grant. SAMHSA will reinforce existing requirements with SABG recipients and will address: (a) accounting for SABG expenditures; (b) alerting SAMHSA about unexpended funds; and (c) amending FFRs to reflect actual SABG expenditures.

Recommendation 2

SAMHSA should recover $1,800,212 from the State agency.

SAMHSA concurs with the recommendation. SAMHSA will review and recover any excess SABG grant funds retained by the provider referenced in the audit report.
February 5, 2019

Brenda M. Tierney
Regional Inspector General for Audit Services
Jacob K. Javits Federal Building
26 Federal Plaza, Room 3900
New York, NY 10278

Re: Report #A02-17-02009

Dear Ms. Tierney:

Thank you for the opportunity to respond to the draft audit report of the United States Department of Health and Human Services, Office of Inspector General (OIG) entitled New York Did Not Provide Adequate Stewardship of Substance Abuse Prevention and Treatment Block Grant Funds. Below are comments and responses to the recommendations contained in your draft findings.

General Comments

The New York State (NYS) Office of Alcoholism and Substance Abuse Services (OASAS) is an executive branch agency that oversees one of the nation’s largest and most diverse programs for the prevention and treatment of alcohol and substance abuse. Its mission is to provide quality, accessible, and cost-effective services that strengthen communities, schools, and families through alcohol and drug prevention, treatment and recovery services and to meet clients’ individual needs through specialized services. OASAS has approximately 100 opioid treatment programs (OTP) that serve over 38,000 people every day. OTPs rely on a combination of revenues derived from OASAS State aid (Federal Substance Abuse Prevention and Treatment Block Grant funds [SAPT] and State appropriations), Medicaid, Medicare, commercial insurance and private pay. OASAS OTPs serve some of the most vulnerable populations regardless of their ability to pay.

Given the critical work that OASAS performs, OASAS has been reevaluating its use of SAPT Block Grant funds and is exploring a plan to modify its current use of funds to provide improved accountability and better reporting of SAPT Block Grant expenditures. OASAS believes this plan would address the overall finding that NYS did not provide adequate stewardship of Substance Abuse and Mental Health Services Administration (SAMHSA).

State Agency Recommendations

1. Review the revenues reported on the fiscal reports of providers not reviewed in this audit and recover any excess unexpended funds.
OASAS generally agrees with this recommendation and concurs that providers should not be able to retain excess revenues. OASAS will review reported revenues for OTPs funded during the Federal fiscal year 2015 to determine if they accurately reported revenues. However, to facilitate our compliance, OASAS requests that the OIG provide its work papers so OASAS can validate the methodology the OIG used to make this recommendation as well as the recommendation to SAMHSA to recover $1,800,212 from the OTP the OIG reviewed. OASAS cannot determine the accuracy of the recommended recovery amount or conduct precise reviews of other providers without understanding what revenues are in question. More specifically, OASAS needs to determine whether the OIG used an accurate Medicaid Management Information System number and what specific Medicaid information they relied on (e.g., Medicaid received by date of service, date of payment or some other date). Further, since the time frame of this audit spanned a period during which these services were transferred from a Medicaid fee-for-service payment mechanism to a plan benefit administered by Medicaid managed care plans, OASAS will validate that the methodology used considered any disruptions and adjustments in the Medicaid payment system caused by the system transition.

2. Develop and implement procedures to ensure that the necessary staff have access to Medicaid revenue data and reconcile the data with the revenue reported on providers' fiscal reports.

OASAS agrees with this recommendation and will work to develop policies and procedures that will enable staff authorized to access Medicaid data in the Electronic Medicaid of New York system to generate reports for will be used to review Medicaid claims and reconcile such claims with reported revenues. Staff will ensure that the compilation and generation of these reports is consistent with the requirements of 42 Code of Federal Regulations Part 2.

Conclusion

OASAS appreciates the OIGs' efforts to ensure SAPT Block Grant funds are used to combat the opioid crisis. Likewise, OASAS is committed to a partnership with SAMHSA to use all available resources to tackle this epidemic and ensure people impacted by drug and alcohol abuse receive the services they need, consistent with the rules and requirements set forth in all grant requirements.

Sincerely,

Trisha R. Schell-Guy
Deputy Counsel

cc: Arlene González-Sánchez, Commissioner
    Robert Kent, General Counsel
    Vittoria Parry, Associate Commissioner
    Steven Shrager, Director of Audit Services