



Robert E. Antonacci II, CPA  
Comptroller

COUNTY OF ONONDAGA

Office of the  
*County Comptroller*

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December 4, 2009

The Honorable County Executive  
The Chair of the County Legislature  
The Chair of the Ways and Means Committee  
The Chair of the County Health Committee  
The Administrator for Human Services  
The Chief Fiscal Officer  
The Commissioner of the Department of Mental Health  
The Clerk of the County Legislature

A limited scope audit of the Department of Mental Health's fiscal operations has been completed. The focus of our examination was the department's revenue recognition methodology and the year-end estimation of accruals relating to State aid from the Office of Mental Health, the Office of Alcoholism & Substance Abuse Services and the Office of Mental Retardation and Developmental Disabilities, as well as other issues of concern. The period of the audit covered the year ending 2007 through April 2009.

We conducted our audit in accordance with Generally Accepted Auditing Standards, Government Auditing Standards issued by the Comptroller General of the United States, the provision of the Office of Management and Budget (OMB) Circular A-133 and the Audits of State and Local Governments. Generally Accepted Auditing Standards require we plan and perform the audit to obtain reasonable assurance about whether the financial records are free of material misstatements. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the financial records. An audit includes assessing the accounting principles used and significant estimates used by management, as well as evaluating the overall financial records in compliance with established policies and procedures. It is the responsibility of the department to ensure the financial records are accurate, complete and that established policies are adhered to.

The recommendations, when implemented, will assist the department in recognizing revenue, improve internal controls and strengthen fiscal management practices.

Sincerely,

Robert E. Antonacci II, CPA

## Revenue Recognition

The Department of Mental Health (MH) contracts with numerous service providers. A majority of funding for these contracts is received in advance from three New York agencies. These advances are appropriately recorded as deferred revenue when received. As MH incurs expenditures it should adjust this account and recognize actual revenue. The first three quarters of revenue recognition is based on provider's Combined Quarterly Reports (CQR's). CQR's report the provider's costs incurred and are used by MH as a basis for recognizing revenue and paying the next advance.

1. Based on a review of index code 360354 – “Mental Health Contracts” as of 10/31/08, it was noted MH is not timely with their revenue recognition. MH incurred approximately \$13.0 million in expenditures as compared to recognizing approximately \$0.5 million in revenue as of the above date. It is estimated MH pays its contracted providers about \$4.0 million in each of the first three quarters. We were informed some of the delay is a result of providers not submitting their required quarterly financial reports in a timely manner. We reviewed the submissions of 2008's 2<sup>nd</sup> quarter reports, which are due by July 15 and noted the following: of the 31 reports, 3 were submitted by the due date, 12 were received by the end of July, 10 were received during August, 5 were received after August and 1 has not been received as of June 16, 2009. It is MH's position to withhold quarterly advances until the CQR's have been received. We tested 11 of the 31 and noted all payments were made after the receipt date of the CQR. Our test results on the 2<sup>nd</sup> quarter CQR's support MH's claim. However, it seems impractical to fail to recognize revenue when payments to providers are in fact being made. Mental Health has recoded approximately \$5.2 million in contract expenditures as compared to \$1.0 million in recognized revenue as of 6/16/09. We offer the following options for recognizing revenue: a) at the time payments are made to providers, b) once every two months or c) estimating revenue on a quarterly basis and adjusting to actual at year-end.

*We recommend the fiscal unit implement procedures to ensure revenue is recognized in a timely manner.*

2. We were informed it has been MH's past practice to record four quarters worth of expenditures in index code 360354 but only recognizes revenue for the first three quarters of the year. This is not proper accounting and results in recording a greater amount of expenditures as compared to their respective off setting revenues. The Comptroller's Office worked with MH's Fiscal Officer and devised a methodology of estimating fourth quarter revenue. This methodology was implemented for year-end 2008, resulting in a proper accounting treatment of revenues at year-end 2008.

*It is suggested the Fiscal unit continue with the above methodology and develop historical data to better support the derived estimates.*

3. We noted advance payments are being made on a quarterly basis, not monthly as written in the contract. Appendix A states, “All eligible contractors shall be provided monthly cash advances.” It also indicates, The County will pay the contractor one-twelfth (1/12) of the contract amount on an advance basis in all months except April, July and October. During

these months the payment will be adjusted either plus or minus to actual based on advance payments received.”

*This was brought to the attention of the Fiscal Officer early in the engagement and the appropriate changes to Appendix A have been implemented for 2009’s contracts.*

4. The Accountant II responsible for monitoring payments to providers prepares and authorizes their contract claims. This represents an improper segregation of duties and results in a weakness in internal accounting controls. There is no indication a management review has been performed prior to these documents being submitted to the Comptroller’s Office for payment.

*To improve internal controls, it is recommended the Fiscal Officer review and authorize payment documents. It is also suggested the department have a procedure in place in the Fiscal Officer’s absence.*

5. The Accountant II reconciles the deferred revenue internal departmental records to the County’s Financial Accounting Management Information System (FAMIS) and then prepares adjusting journal entries. There is no indication to support management has reviewed these entries.

We also noted it is the Accountant II’s practice to update these internal reconciliation worksheets after the entries have been posted to FAMIS. This can result in entries failing to be posted to FAMIS and not being caught, since the reconciliation would still balance. This is supported by entry KB08363, which was prepared on 7/2/08 but its omission from FAMIS was not detected until January 2009. It was resubmitted and posted on 1/16/09. If this entry was recorded on the reconciliation at the time of preparation the difference would have been noticed in a timelier manner.

*The Fiscal Officer should review and initial these adjusting journal entries. It is also suggested the Accountant II update the internal reconciliations at the time the entries are prepared and then check the postings to FAMIS within a reasonable time. We suggest the Fiscal Officer periodically review the deferred revenue reconciliations.*

### **Provider Payment Testing**

6. Of the 10 Consolidated Fiscal Reports selected for testing, two provider’s certification pages were not signed as required by NYS Consolidated Fiscal Reporting and Claiming Manual Section 2.0 - Submission Requirements. This report represents the year-end summary of program activity and is used in the determination of provider’s final payments.

*We suggest the department adhere to the above NYS requirement.*

7. In our test sample of 14 providers we were unable to agree one provider’s program costs to Mental Health’s internal records. It was noted the provider’s Consolidated Quarterly Report used to advance payments did have the correct program balances. Extensive cost data from about 30 providers Consolidated Budget Reports are data entered into Excel spreadsheets to facilitate monitoring provider’s program costs and determining budgeted

line item variances. This difference did not result in any payment errors. However, the accuracy of this information entered in the initial stages will alleviate time looking for data entry errors at a later date.

*We suggest the Fiscal unit implement review procedures to ensure the accuracy of these internal records.*

8. Mental Health received \$39,288 of STOP DWI funds in February 2008 for alcoholic counseling costs incurred by one of its contracted service providers. These funds were for the 2007 program year and the liability was properly accrued at year-end 2007. However, after receipt of the funds only a portion was paid to the provider. The remaining balance of \$28,899 is still owed as of June 2009. It is our understanding these funds are a pass through and supplement the provider's alcoholic counseling program. Based on this understanding, it appears these funds should have been paid in full at the time of receipt. We further noted the contract does not address these funds or any special reporting requirements to support and verify their use of STOP DWI program funds.

*We offer the following: The Fiscal unit should implement review procedures of outstanding accounts payable to ensure timely payments. Mental Health should also change their current contracting procedures and execute an amendment with the provider after the STOP DWI Coordinator determines the actual available funds to pass through. This amendment should also address the source of these funds, their specific uses, as well as any required detail that should be submitted by the provider to verify the funds were used for allowable costs associated with the intent of the STOP DWI program. The latter should be a coordinated effort with Mental Health's Contract Manager and the STOP DWI Administrator. An alternative solution is to discontinue this practice and have STOP DWI execute their own contract.*

### **Due to New York State GL211**

9. Currently recorded on FAMIS in GL211 is a liability in the amount of \$197,511 owed to NYS Mental Health, subsidiary #000003. The initial posting was in December 2000 and the last activity recorded to this subsidiary was in July 2002. Due to its age, the current Fiscal Officer is unfamiliar with the nature of this amount. The Comptroller's Office has provided detailed account information to the department to assist in researching this liability.

*We recommend the Fiscal Officer make a reasonable attempt in determining if these funds are still owed. If this is unfeasible, the account should be canceled.*

### **Outstanding Accruals**

10. We were informed it is Mental Health's practice to accrue the remaining balance of contracts recorded in index code #360354 as opposed to attempting to obtain a reasonable estimate of expenditures incurred by the end of the year from their providers. The potential exists to over accrue and record excessive liabilities and expenditures in the current year. Canceling these accruals in a later year reduces that year's expenditures thereby giving the impression the department has additional appropriations to spend in the year accruals were

canceled. It is also their position to cancel a majority of outstanding accruals after program closeouts are finalized with NYS. NYS is responsible for initiating the closeout process. We reviewed the accruals from 2003 to 2007 and noted a majority, or approximately 78%, are paid the following year and there is limited activity after this time period. Generally, final payments are made in June of the following year after the Fiscal unit has reviewed providers' Consolidation Financial Reports (CFR's). These reports are usually received by May.

There is approximately \$1.7 million of a remaining balance in outstanding accruals and slightly more than \$1.0 million of the original amount has been canceled. This represents nearly 22% of the original accruals. If this percentage is applied to 2008's accrual amount of \$2.2 million, it is estimated \$484,000 will be canceled. Also, note \$485,000 of the \$557,000 from 2003's accrual balance was canceled in 2009. This is illustrated below.

<b>Accrual Summary as of May 2009</b>							
Year	Original Amount	Payments	Balance		Percentage		
			Remaining	Canceled	Actual Payments	Balance	
						Remaining	Canceled
2003	\$ 2,191,885	\$ 1,634,260	\$ -	\$ 556,392	74.56%	0.00%	25.38%
2004	3,430,367	2,711,551	455,726	263,090	79.05%	13.29%	7.67%
2005	1,936,094	1,574,413	360,594	1,087	81.32%	18.62%	0.06%
2006	2,285,083	1,738,017	358,866	188,200	76.06%	15.70%	8.24%
2007	2,218,192	1,693,066	518,692	6,434	76.33%	23.38%	0.29%
<b>Total</b>	<b>\$ 12,061,621</b>	<b>\$ 9,351,307</b>	<b>\$1,693,878</b>	<b>\$ 1,015,203</b>	<b>77.53%</b>	<b>14.04%</b>	<b>8.42%</b>
2008	\$ 2,319,679	\$ 465,152	\$1,854,527	\$ -	20.05%	79.95%	0.00%

The presentation below represents a summary total of six providers 2003 through 2007 accruals with an outstanding balance in excess of \$100,000. It illustrates approximately 54% of their accruals have been paid and 29% remains unpaid. With the exception of the Salvation Army, the remaining five on an individual level have unpaid balances in excess of 47%. If Mental Health more closely estimated these six providers it would have a significant impact on the overall accrual amount recognized at year-end.

<b>Selected Contracted Providers Accrual Summary 2003 - 2007</b>					
<b>Service Provider</b>	<b>Original Amount</b>	<b>Payments</b>	<b>Remaining Balance</b>	<b>Balance Canceled</b>	<b>Percent Unpaid</b>
Arise Child & Family Services	\$ 333,704	\$ 177,883	\$ 125,423	\$ 30,398	47%
Onondaga Case Management	1,243,615	569,752	126,461	547,402	54%
Professional Practice Group	220,385	107,077	110,785	2,523	51%
St. Josephs Hospital	641,315	384,663	209,855	46,797	40%
The Salvation Army	1,558,015	1,273,929	272,507	11,579	18%
Transitional Living Services	1,464,524	455,062	752,359	257,103	69%
<b>Total</b>	<u>\$ 5,461,558</u>	<u>\$ 2,968,366</u>	<u>\$ 1,597,390</u>	<u>\$ 895,802</u>	
<b>Percent of Total</b>		<u>54%</u>	<u>29%</u>	<u>17%</u>	
Represents providers with a remaining balance over \$100,000 as of May 2009.					

*We recommend Mental Health revisit its methodology of determining their year-end accruals to more closely match actual program costs.*

## Closeout

11. NYS Office of Mental Health (OMH) finalized the closeout of the 2003 program late in 2008. It identified approximately \$1.1 million, which is owed to NYS. OMH does not require an actual payment to be made, but rolls the amount forward to fund OMH's 2009 programs. Approximately \$700,000 previously advanced during 2003 was on hand to cover part of the balance owed. This amount has been appropriately posted to the 2009 subsidiaries recorded in the Deferred Revenue account GL300. The Fiscal Officer has identified the unfunded balance, about \$400,000, as detailed below.

<b>2003 Closeout Reconciliation</b>	
<b>Description</b>	<b>Estimated Amounts</b>
2003 Subsidiary balances GL300	<u>\$ 700,000</u>
2002 OMH Holdback	152,000
Incorrectly coded revenue	168,000
Unknown difference	40,000
<b>Estimated unfunded balance</b>	<u>\$ 360,000</u>
Amount owed from provider	<u>\$ 40,000</u>
Amount overpaid per OMH	<u><u>\$ 1,100,000</u></u>

The \$152,000 represents a non-cash payment held back to cover a prior year's overpayment. (It is still owed.) The \$168,000 has been identified as cash advances and refunds received from NYS and providers. These amounts were incorrectly posted to other Mental Health accounts at the time of receipt. The nature of approximately \$40,000 could not be determined and a provider is anticipated to repay the remaining balance of roughly \$40,000 by midyear.

If Mental Health fails to fully fund the difference of \$360,000 the potential exists to have an even larger holdback in another year's closeout resulting in an unexpected use of appropriations in the future. The potential also exists this unfunded balance might be needed this year to pay current year contract expenditures. Eventually Mental Health will need to cover the shortage. As discussed in the Accrual section above, approximately \$485,000 of 2003's accruals were canceled and are available to cover this shortfall. These funds should be used to cover the unfunded balance.

*It is recommended the 2009 subsidiary accounts are made whole this year.*

## Medicaid Reimbursement

12. Mental Health did not properly complete a review of their 2007 and 2008 hospitalization charges for eligible individuals who might qualify for 50% Medicaid reimbursement. It is our understanding Mental Health is responsible for reviewing their patients expenditures for potential qualification. These claims are then forwarded to the Medicaid unit in the Department of Social Services (DSS) for actual eligibility determination. DSS's Accounting unit then submits the reimbursement voucher to the State. Based on the reimbursement received for 2006 activity, I/A identified approximately \$278,000 of costs from 2007 through 2009, with the potential of about \$139,000 in reimbursement. This listing was provided to the Fiscal Officer as a starting point and should not be considered as all-inclusive. Other claims beyond our limited review of the past reimbursement may also be eligible for reimbursement.

*We recommend Mental Health review this listing of expenditures for 2007 through 2009 and provide DSS's Medicaid unit with the required documentation to facilitate the eligibility determination and potential subsequent Medicaid reimbursement. Mental Health should assign an individual(s) with the responsibility of obtaining an understanding of program eligibility as a means to identify other potential patient expenditures, which may qualify for Medicaid reimbursement. Mental Health should also implement procedures to ensure eligible costs are reviewed and submitted to DSS in a timely manner. It is also suggested the analysis is documented and approved by management.*

13. The previous Medicaid reimbursements were incorrectly recorded as miscellaneous revenue instead of Federal aid. This resulted from using the general Accounts Receivable account GL125. The appropriate FAMIS account to record a receivable for Federal aid is "Due from State & Federal Government GL134" with the following subobject #0152. This subobject identifies the revenue as Medical Assistance 93.778. This error is prior to the current Fiscal Officer.

*We recommend the Fiscal Officer ensure the individual responsible for accounting for these reimbursements is made aware of the appropriate FAMIS accounts to use when recognizing Federal aid.*

## Support Case Management

In the past, one of Mental Health's providers took over responsibility of this program from Onondaga County with the condition employees would be allowed to remain on the County's payroll. The provider reimburses Mental Health for salaries, fringe benefits and other related costs charged to the Support Case Management index code #360636. Through attrition the provider hires new employees and places them on their payroll.

In our audit report dated February 23, 2005, it was recommended indirect costs charged to this program be billed to this provider. We noted, effective with the 2006 program year, these costs are being charged and reimbursed by the provider. We also recommended a written formal agreement of understanding be executed. However, this has not taken place.

14. In 2007 this program's year-end revenue accrual entry was incorrectly posted to another index code #360453 and \$656 in costs remains unpaid as of 6/09. We do note 2006 and 2008 program costs have been paid in full. A cursory review of program balances at year-end will detect miss posted journal entries and a revenue analysis would match actual program year revenue to expenditures to ensure respective costs are covered in full.

*We recommend the above balance is billed to the provider and year-end bills contain language indicating this is an estimated bill. Any prior year amount owed should be clearly distinguished as a separate line. We further suggest Mental Health implement financial review procedures and an individual is assigned the responsibility of performing a revenue analysis.*



COUNTY OF ONONDAGA  
*Department of Mental Health*

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Joanne M. Mahoney, County Executive

Robert C. Long, MPA, Commissioner

October 28, 2009

Mr. Robert Antonacci, CPA, Esq., Comptroller  
Onondaga County Comptroller's Office  
John H. Mulroy Civic Center – 14<sup>th</sup> Floor  
421 Montgomery St.  
Syracuse, NY 13202

Dear Mr. Antonacci:

Thank you for the opportunity to review the results of your recent audit and for the opportunity to respond to the findings. Our responses follow.

**Revenue Recognition:**

**Finding 1:** We agree with the recommendation and have corrected the timeliness of recognizing revenue, on a quarterly basis, in conjunction with the New York State (NYS) quarterly reports.

**Finding 2:** We agree that four quarters of revenue should be recognized, however, the methodology of estimating fourth quarter revenue used for 2008 is complex and time consuming and did not determine the revenue ultimately accrued by the County. We will employ a simpler process of recognizing fourth quarter revenue that produces the same end result.

**Finding 3:** We agree with the recommendation and have implemented appropriate changes to Appendix A.

**Finding 4:** We agree with the recommendation and have implemented a procedure for the Fiscal Officer to review and authorize payment documents. We also have implemented procedures to be followed in the absence of the fiscal officer.

**Finding 5:** We agree with the recommendation and have implemented the proposed changes. We are reconciling and reviewing on a quarterly basis.

**Provider Payment Testing:**

**Finding 6:** We are adhering to the NYS requirements. These signed certification pages are sent to NYS and verified. The certification pages in question were revised reports that were submitted at a later date.

**Finding 7:** As noted in the audit report, no payment errors resulted from this finding. There is considerable fluctuation of these reports from quarter to quarter. The report is reviewed on a yearly basis by the fiscal officer before final payment is made, to insure that no overpayments are made.

**Finding 8:** We have contacted the provider that receives said funds. They have submitted a letter of explanation that is currently under review with the County department that supplies the funds. We will process payment to the provider when the review is complete and a signed claim form is received.

**Mental Health ♦ Mental Retardation and Developmental Disabilities ♦ Alcohol and Substance Abuse Services**

♦ Day Treatment Program (315) 435-7706  
520 Cedar Street - Syracuse, NY 13210  
FAX: (315) 435-7715

♦ Clinic Services (315) 435-7707  
530 Cedar Street - Syracuse, NY 13210  
FAX: (315) 435-7710

♦ Family Support Service (315) 472-7363  
220 Herald Place - Syracuse, NY 13202  
FAX (315) 472-0084

**Due to New York State:**

**Finding 9:** We are currently reviewing the account to determine if funds are owed and appropriate action will be taken when the review is complete.

**Outstanding Accruals:**

**Finding 10:** Due to the nature of the programs and the State closeout process we cannot definitively estimate the allowable amount spent by the agencies prior to the State closeout, e.g. due to various funding streams and the number of provider programs, the providers have the potential to receive additional funds based on the availability of the aggregate State Aid not consumed by the originally designated providers and funding can be redistributed when the State closes the fiscal year. The State is becoming more timely in its close outs and we expect the delay in canceling these accruals to be reduced substantially.

**Closeout:**

**Finding 11:** 2003 is the first fiscal year NYS has used an online program to reconcile the expenses claimed by the providers. This was a new system for all involved and much different than the methodology used by the State in previous years. We are monitoring this closely and now have a much better understanding of how the reconciliation process will work going forward.

**Medicaid Reimbursement:**

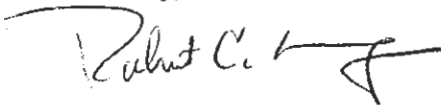
**Finding 12:** This is currently being reviewed by the department's Accountant I and we are working with the Department of Social Services to determine if we are due any monies.

**Finding 13:** We agree with this finding and will make sure the receivable is coded correctly in the future.

**Supported Case Management:**

**Response 14:** A letter was sent to the Provider to request the amount due. This program has been completely transferred to the provider as of 6/30/09, eliminating the need for additional procedures related to indirect charges for this program.

Sincerely,



Robert C. Long, MPA  
Commissioner

cc: Sandra Miller-Martens