



STATE OF NEW YORK
OFFICE OF THE STATE INSPECTOR GENERAL
Final Report
January 19, 2012

SUMMARY OF FINDINGS/RECOMMENDATIONS

The Inspector General found that Wai Fong Lee, a certified public accountant, forged signatures on financial reports which were submitted to the New York State Office of Mental Health (OMH), on behalf of Venture House, a not-for-profit organization funded by OMH. Specifically, as part of her effort to hide her delinquency in preparing required financial documents on Venture House's behalf, Lee forged the name of Venture House's independent auditor on two fiscal reports she submitted, and prepared and submitted a financial statement based upon unaudited data as if it were an audited statement prepared by Venture House's independent auditor.

The Inspector General referred its findings to the New York County District Attorney's Office, which brought criminal charges against Wai Fong Lee. On January 18, 2012, Lee pleaded guilty to Offering a False Instrument for Filing in the Second Degree, a misdemeanor.

While the Inspector General found that other vendors timely submitted financial reports, Venture House, over an extended period, failed to submit required financial reports to OMH, and OMH failed to hold Venture House accountable for these deficiencies. OMH advised the Inspector General that during the investigation it strengthened internal control measures to ensure that vendors file all financial reports as required.

ALLEGATION

In July 2009, OMH reported to the Inspector General that Venture House, a not-for-profit organization funded in part by OMH, had failed to submit required financial records for an extended period, and that when records were finally submitted, they contained what appeared to be forged signatures.

SUMMARY OF INVESTIGATION

Background

OMH annually administers more than 725 contracts, which provide approximately \$750 million in funding to local government and non-government programs offering services to individuals with mental illnesses throughout the state. As part of its monitoring of contract performance, OMH requires each provider to submit an annual Consolidated Fiscal Report documenting contract-related revenues and expenditures. Consolidated Fiscal Reports are submitted in two parts: the body of the Consolidated Fiscal Report is uploaded digitally to OMH via the Internet, and a signed hard copy of a statement certifying the truth and correctness of the fiscal information (the Certification Statement) is sent by mail to OMH. The Certification Statement requires the signature of an “Independent Licensed or Independent Certified Public Accountant.”

OMH also requires the submission of an audited financial statement from a certified public accountant independent of the provider organization. Audited financial statements are also sent by mail to OMH.

The Consolidated Fiscal Report and audited financial statement are due within 120 days of the close of the fiscal year for which they report, although a 30-day extension is granted if the provider submits an extension request within the 120-day period. Late submission or failure to submit required financial documents can result in OMH withholding contract funds.

Venture House, a not-for-profit organization located in Jamaica, Queens, has provided services to adults with mental illnesses since 1988 through funding contracts with OMH, among other sources. Since fiscal year 2004-2005, Venture House has received over \$11 million in OMH funding for housing and employment services to its clients. Venture House has a small administrative staff, and does not employ its own full-time accountant. Rather, it employs certified public accounting firms to perform its internal bookkeeping, tax preparation, and related financial functions. From 2000 to 2009, Venture House hired T.S. Anand & Co. in that capacity. Wai Fong Lee, a certified public accountant employed by T.S. Anand & Co., performed the financial analysis work for Venture House and served as the primary contact on Venture House’s behalf with OMH during that time. David Lehmann, Venture House’s Executive Director, was ultimately responsible for review and approval of financial reports to OMH.

In 2005 and 2006, Venture House also hired the accounting firm of Gentile Pismeny & Brengel as external auditor to prepare audited financial statements.¹

¹ During the course of this investigation, OMH noted that, in 2005, Venture House had hired T.S. Anand & Co. to prepare and sign its Consolidated Fiscal Report. However, because the Anand firm functioned as Venture House’s internal bookkeeper, it was not an independent CPA firm for that purpose.

Venture House's Failure to Submit Required Financial Documents

The Inspector General determined that Venture House, over an extended period, failed to submit required financial reports to OMH, and that OMH failed to hold Venture House accountable for these deficiencies.

Records show that for fiscal year 2004-2005, Venture House had not submitted its required Consolidated Fiscal Report and audited financial statement by the November 1, 2005 deadline;² nor had it requested a 30-day extension of the filing deadline. However, officials in OMH's Community Budget and Finance Management Group advised the Inspector General that, under an "unwritten policy," they generally grant providers an additional five-month extension for financial reporting. Consequently, OMH did not contact Venture House regarding its unfiled reports for fiscal year 2004-2005 until April 26, 2006. Despite Venture House's response that the reports would be submitted within two weeks, it was not until September 28, 2006, nearly five months later, that all required documents were filed with OMH. Even then, OMH determined that Venture House's submissions were incomplete and, in part, inaccurate; and, on December 28, 2006, OMH notified Venture House that unless these problems were resolved by February 1, 2007, a portion of its next funding payment under the contract might be withheld. While OMH records do not contain documentation of further communication from Venture House answering these questions, OMH informed the Inspector General that it received sufficient information to resolve the issues, and it took no action to withhold funds.

Venture House's reporting failures became more flagrant over the next three fiscal years, and for most of that period, remedial action by OMH was ineffective or altogether lacking. Records indicate that for fiscal year 2005-2006, Venture House requested and received a 30-day extension for filing the required financial reports until November 30, 2006. No submissions, however, were made by that date or by the end of the additional five-month extension routinely, although informally, granted by OMH. In fact, records show that OMH made no contact with Venture House until August 3, 2007, nearly a year after the 2005-2006 reports first were due. On that date, OMH requested a submission within two weeks, which brought no response from Venture House. A follow-up letter sent by OMH to Venture House on September 6, 2007, and copied to Venture House's Executive Director, David Lehmann, warned, "Failure to file the required documents to the OMH may result in reductions to your quarterly advances."

Despite this apparent note of urgency by OMH, Venture House made no submission of required financial reports for 2005-2006, and records reflect no further follow-up by OMH. In fiscal year 2006-2007, Venture House submitted no reports at all and requested no extension. Despite these failures, OMH failed even to make any inquiries of Venture House, much less threaten to withhold funding.

For the following year, fiscal year 2007-2008, Venture House again failed to file any reports by the deadline. According to OMH records, however, on December 5, 2008, OMH contacted Wai Fong Lee by telephone, requested Venture House's financial records for the previous three years, and told Lee OMH was "recommending not paying

² As Venture House operates on a July 1 to June 30 fiscal year, its financial reports must be submitted to OMH within 120 days after the end of the fiscal year, or by November 1.

the January [2009] advances, until an acceptable plan for submitting [financial records] is resolved.” According to the OMH internal file, Lee, on Venture House’s behalf, promised a response that day. When nothing was received by January 15, 2009, OMH again contacted her, advising that the next funding payment was being withheld. In fact, OMH did withhold the next funding payment.

The Forged Venture House Financial Reports

On or about February 6, 2009, OMH received a digital upload for the Venture House Consolidated Fiscal Report for 2005-2006, and on or about March 25, 2009, OMH received an accompanying Certification Statement for Venture House by mail. OMH received a digital upload for the Venture House 2006-2007 Consolidated Fiscal Report on or about May 7, 2009, and a mailed Certification Statement for that fiscal year on or about May 15, 2009. OMH received the purported Venture House audited financial statement for 2006-2007 on or about April 17, 2009.

The documents were reviewed by staff in OMH’s Community Budget and Finance Management Group. During the review, errors were identified in the Consolidated Fiscal Report and audited financial statement for fiscal year 2006-2007, all of which bore signatures indicating that they had been prepared by Gentile Pismeny & Brengel (GPB), Venture House’s external auditing firm. OMH contacted Kyle Brengel, the GPB partner in charge of the Venture House account. Brengel informed OMH that his firm had not prepared the Consolidated Fiscal Report for the year in question, and in fact had never processed such reports for Venture House, and that the audited financial statement submitted was not from his firm. Suspecting that the documents might have been forged, OMH referred the matter to the Inspector General.

As noted, Venture House had hired GPB in 2005 and 2006 as the external auditor. As such, GPB was responsible for producing and signing audited financial statements for Venture House based on its review of internal revenue and expenditure records provided to it by Lee of T.S. Anand & Co.

When interviewed by the Inspector General, Brengel confirmed that while his firm had prepared Venture House’s audited financial statements for fiscal years 2004-2005 and 2005-2006, it was not responsible for preparing, signing, or submitting Consolidated Fiscal Reports, and had never done so. According to Brengel, when the time came in 2007 to begin preparing an audited financial statement for fiscal year 2006-2007, he contacted Lee, but she informed him that the internal records of Venture House’s revenues and expenditures were not yet ready for his review. Brengel said that after several more attempts, each of which was met with the same response, he stopped contacting Lee, assuming that Venture House had hired another firm to certify its financial statements. Brengel also confirmed that he had not signed the 2006-2007 Consolidated Fiscal Report or the audited financial statement submitted to OMH in May 2009, which bore signatures purporting to be his.

Brengel informed the Inspector General that when, in the fall of 2009, it became apparent that Lee had submitted false documents, and that the documents would have to be prepared properly, Venture House asked GPB to assist. As Venture House was three years behind in its submissions and faced possible termination of funding by OMH, GPB

was retained to serve as internal accountant. Brengel further explained that once GPB took on that role, he found that a great proportion of the work had actually been completed, including payment of bills, and the organization was operating appropriately, but financial analyses were incomplete. He found no evidence of funds having been misappropriated from Venture House, or other financial irregularities. GPB helped Venture House establish an audit committee, directed Venture House to send out an RFP for auditing services, and worked to bring financial analyses up-to-date

The Inspector General interviewed Lee twice. In her first interview, she denied signing Brengel's name on the documents submitted to OMH, or directing any other T.S. Anand & Co. employee to do so. During the second interview, when confronted with additional evidence, Lee recanted her previous statement and admitted preparing the Consolidated Fiscal Reports for Venture House for the fiscal years 2005-2006 and 2006-2007, and that where the statements required the signature of an independent accountant, she signed the GPB firm name. She also admitted to preparing an audited financial statement for Venture House for the fiscal year ending June 30, 2007, and signing the GPB firm name on that document. She testified that she, alone, was responsible for these acts and that she had engaged in such conduct because she had fallen behind in her work.

Lack of Oversight by Venture House Executive Management

In his interview with the Inspector General, Venture House Executive Director David Lehmann acknowledged that in approving financial reports prepared by Lee for submission to OMH, his review was "probably not as detailed as it should be."

Lehmann asserted that at no time prior to the Inspector General's investigation was he aware that Venture House had failed to submit any required financial reports to OMH. Lehmann's claim, however, is inconsistent with the fact that, as noted, OMH copied Lehmann on a September 6, 2007 letter to Venture House warning that continued failure to submit required records for that period could result in a reduction in funding.

After his interview but while the Inspector General's investigation was ongoing, Lehmann advised that Venture House no longer utilized T.S. Anand & Co., and that in its place, Venture House had hired GPB to handle Venture House's internal accounting functions. Lehmann also informed the Inspector General that Venture House's Board of Directors had created an audit committee, and will change both internal and external auditors more frequently. Finally, Venture House has hired an independent accounting firm to prepare audited financial statements and other documents requiring an independent firm's review and certification.

FINDINGS AND RECOMMENDATIONS

The Inspector General found that accountant Wai Fong Lee submitted to OMH required fiscal reports for Venture House that contained forged signatures and created an audited financial statement which purported to have been prepared by Venture House's auditor. It appears that these acts were committed because Lee was delinquent in her work, and not to conceal financial irregularities.

The Inspector General referred this finding to the New York County District Attorney's Office, and that office brought criminal charges against Lee. In satisfaction of the charges against her, on January 18, 2012, Lee pleaded guilty to Offering a False Instrument for Filing in the Second Degree, a misdemeanor. Lee was sentenced to a conditional discharge with the condition that she complete seven days of community service, pay a \$1,000 fine, and notify the New York State Education Department of her conviction. In her plea agreement, Lee attested that she has engaged in no other criminal conduct in the performance of her accounting duties, except that described in this report. The Inspector General will provide a copy of this report to the American Institute of Certified Public Accountants.

The Inspector General also found that that Venture House, over an extended period, failed to submit required financial reports to OMH, and that OMH failed to hold Venture House accountable for these deficiencies. The Inspector General found that most other vendors submitted financial reports timely.

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In its response to the Inspector General's report, OMH stated that during the investigation, improvements were made to OMH's processes of monitoring the timely submission of financial documents by providers, and withholding funds from those providers who fail to do so.