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**Alan G. Hevesi  
COMPTROLLER**



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**OFFICE OF THE  
NEW YORK STATE COMPTROLLER**

**DIVISION OF STATE SERVICES**

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**WESTERN REGIONAL  
EMERGENCY MEDICAL  
SYSTEM, INC. GRANT  
EXPENDITURES**

**Report 2005-S-65**

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## AUDIT OBJECTIVE

Our objective was to determine whether expenditures made by the Western Regional Emergency Medical System, Inc. (WREMS), under a grant from the Department of Health, were reasonable and appropriate, and in particular, whether payments made by WREMS to its landlord (a not-for-profit corporation closely associated with WREMS) were reasonable and appropriate.

## AUDIT RESULTS - SUMMARY

WREMS is one of 16 regional organizations supporting emergency medical services in New York State. Like the other regional organizations, WREMS receives an annual grant from the Department of Health (Department) to fund its activities.

We found that the payments made by WREMS for leased space may not be appropriate. WREMS leases a building from another not-for-profit corporation (Crossroads), formed by members of WREMS' board. It appears that this arrangement was made to avoid the State having an ownership interest in the building. According to the Department's grant, any building purchased with State funds becomes property of the State.

This is further supported by a review of the other corporation's actions. Although Crossroads was ostensibly created for the purpose of providing grants and scholarships, it has provided no grants or scholarships in more than four years of existence. Crossroads has no employees and no telephone number, and appears to have been engaged in no other business activities other than buying the building and leasing the building to WREMS for 15 years. Three members of the WREMS Board of Directors are also directors of

Crossroads, and income tax forms filed by the two entities show the same address.

Prior to moving into the leased building in 2001, WREMS resided in rent-free office space. Now WREMS pays Crossroads \$25,000 a year in rent. In 2001, WREMS also paid Crossroads a one-time fee of \$45,000 to keep the rent at its current level and loaned Crossroads \$47,198, interest-free, to cover the costs of renovating the office space. The loan has not been repaid. According to their grant contract, if WREMS itself had purchased the building with grant funds, the building would have belonged to the State. Thus, WREMS may have used Crossroads as a front to retain ownership of the building and realize any profits from the sale and rental of the building. We also determined that certain other grant expenditures made by WREMS were either inadequately documented, excessive or not consistent with the purpose of the grant.

We recommend the Department recover grant funds that may have been paid inappropriately to WREMS and determine whether the building purchased by Crossroads should rightfully be claimed as State property. Department officials agreed with our recommendations and have taken steps to implement them. In addition, we will refer our findings to the Charities Bureau of the State Attorney General's Office for further investigation.

This report, issued on June 6, 2006, is available on our website at: <http://www.osc.state.ny.us>. Add or update your mailing list address by contacting us at: (518) 474-3271 or  
Office of the State Comptroller  
Division of State Services  
State Audit Bureau  
110 State Street, 11<sup>th</sup> Floor  
Albany, NY 12236

## BACKGROUND

Emergency medical services (EMS) in New York State are provided by local ambulance services and other providers that are overseen by the Department of Health. To help ensure EMS providers deliver competent pre-hospital and emergency medical care, the Department works with a number of organizations that set standards, develop procedures, analyze EMS data, provide EMS training and recommend improvements in the EMS system.

For example, 18 Regional Emergency Medical Services Councils (Regional Councils) assess the need for new EMS services and coordinate EMS training in their respective geographic regions. In addition, 16 Program Agencies support the Regional Councils by performing such activities as providing technical assistance to EMS providers, aiding in the recruitment and retention of EMS personnel, and analyzing EMS service data to identify opportunities for improvement in the EMS system.

WREMS is one of 16 Program Agencies statewide. WREMS supports three Regional Councils serving eight counties in Western New York (Allegany, Cattaraugus, Chautauqua, Erie, Genesee, Niagara, Orleans and Wyoming). WREMS is a not-for-profit corporation with a staff of 11. Its operations are overseen by an 18-member Board of Directors that includes representatives from each of the three Regional Councils associated with WREMS.

The Program Agencies enter into annual contracts with the Department to receive grants from the Department. While WREMS also receives some revenue from other sources, it is funded primarily by its annual grant from the Department. The period covered by the grant is July 1 through June 30 of the following year. Our audit focused on

the year ended June 30, 2005, during which WREMS was awarded a contract for about \$381,000 from the Department. Comparable amounts were received in the preceding years. WREMS has been an EMS Program Agency for more than ten years.

According to the terms of its contract with the Department, WREMS is to expend its grant funds on activities that support emergency medical services in its eight-county service area. To be reimbursed for its grant expenditures, WREMS must submit a voucher for the Department's approval. Such vouchers are to be submitted quarterly.

For the year ended June 30, 2005, WREMS was reimbursed approximately \$237,000 for grant expenditures. According to records maintained by WREMS, about 60 percent of these expenditures related to staff salaries and other personal service costs (such as pension and health insurance costs), while the remainder related to other expenses such as rent, travel, supplies and equipment.

## AUDIT FINDINGS AND RECOMMENDATIONS

### *Questionable Relationship with Landlord*

All WREMS staff work out of one office. Prior to November 2001, this office was located in a building owned by the Erie County Medical Center Corporation. Other public service providers were also located in the building, and WREMS was charged no rent for its office space.

In November 2001, WREMS moved its office to a building located in Cheektowaga, a suburb just outside Buffalo. The building is owned by a not-for-profit corporation called Western New York Crossroads (Crossroads). WREMS entered into a 15-year lease for the new office space, which consists of the entire

one-story building. Under the lease, WREMS pays Crossroads \$25,000 a year in rent. WREMS also paid Crossroads a one-time fee of \$45,000 when the lease was signed in June 2001, in return for which the rent is to remain at its current level for the entire 15-year lease period.

The building had been used as a bank, and according to the lease, Crossroads was responsible for the initial renovations that were needed to make the building suitable for WREMS. However, in September 2001, WREMS loaned Crossroads \$47,198 to cover the cost of these renovations. WREMS charged Crossroads no interest on the loan, and as of June 30, 2005, Crossroads had made no repayments on the loan.

We note that WREMS began making its rental payments in June 2001, three months before Crossroads actually owned the building (the purchase was not finalized until September 11, 2001) and five months before WREMS actually moved into the building. We also note that the one-time \$45,000 rent stabilization fee and all of WREMS' rental payments were made with EMS grant funds obtained from the Department.

We asked WREMS officials why they had moved from rent-free office space to space requiring \$25,000 a year, and \$70,000 in the first year, in rent payments. We noted that such an increase in expenses is significant for a not-for-profit organization that is funded primarily by an annual State grant of about \$380,000.

WREMS officials initially stated they moved their office because they believed the building containing the office might be sold by the Erie County Medical Center Corporation and WREMS might be evicted from its space. However, they later gave other reasons for the move. For example, on one occasion they

said the space was too small and on another occasion they indicated that it was better for WREMS to be located in office space not associated with one particular hospital.

While some or all of these factors may have played a part in the move, we identified another factor that appears to be relevant. WREMS' new landlord, the not-for-profit corporation Crossroads, did not exist until May 2001, the month before the lease for the new office space was signed. According to a former member of WREMS' Board of Directors, Crossroads was created by WREMS for the sole purpose of purchasing a building that could be rented to WREMS. The former Board member told us that plans for such an action were discussed by other Board members and WREMS' legal counsel, and we note that three WREMS Board members (the Chairperson, Secretary and Treasurer) are also Directors of Crossroads, which has only five Directors in total (they are listed on the Articles of Incorporation for Crossroads).

According to Crossroads' certificate of incorporation, which is on file at the Department of State, Crossroads was established "exclusively for charitable purposes, to be achieved through the distribution of its funds for such purposes generally and particularly to coordinate purchases of various supplies, vehicles and other related items for the existing emergency medical services organizations in the eight county Western New York area, and to disseminate publications and information among these organizations pertaining to the delivery of emergency medical services." When we asked a WREMS official to clarify this description of Crossroads' purpose, the individual told us that Crossroads was established to provide scholarships to people wanting to pursue a two-year degree in emergency medical services (such a degree

can enable an individual to be certified as an EMS provider).

However, as of June 30, 2005, more than four years after its creation, Crossroads had not awarded a single scholarship and had not awarded a single grant to emergency medical services organizations. Moreover, Crossroads had no employees, no telephone number, no community outreach programs, and no Internet web site. When we asked a Crossroad official (one of the individuals who is a Board member for WREMS and Director for Crossroads) how Crossroads could be contacted, they had no suggestions.

It thus appears that Crossroads may have been engaged in only two business activities since it was created: (1) it purchased a building that it was to renovate for WREMS and (2) it entered into a 15-year lease to rent the building to WREMS (totaling \$420,000). We found no evidence indicating that Crossroads has done anything else. In such circumstances, we question whether Crossroads is, in fact, separate from WREMS. We note that, in the rental agreement between Crossroads and WREMS, the same individual (the WREMS Chairperson) has acted as both landlord and tenant, signing the lease on behalf of Crossroads (the landlord) and the monthly rent checks on behalf of WREMS (the tenant). Moreover, the income tax forms filed by WREMS and Crossroads indicate that the two companies share the WREMS address and the WREMS phone number.

According to the contract between WREMS and the Department, if WREMS uses grant funds to purchase a building, the building belongs to the State. It thus appears that WREMS may have created Crossroads so that it could retain ownership of a building that was purchased with State funds from the grant. As owner of the building, Crossroads can retain any profits that are realized when

the building is sold and can also realize any profits that are generated from the rental agreement.

We were unable to determine if Crossroads is realizing any profits from the rental agreement, because Crossroads officials would not provide us with the relevant documents (such as the mortgage agreement for the building). We were able to determine from available public records that Crossroads paid \$205,000 for the building, making a \$20,000 down payment and obtaining a mortgage for the balance of \$185,000. We also determined that, on a square-foot basis, the rent was reasonable for the area.

In light of the questions raised in this report about the actual nature and purpose of WREMS' landlord, Crossroads, we recommend the Department (1) recover any grant funds WREMS inappropriately paid to Crossroads and (2) determine whether the building purchased by Crossroads should rightfully be claimed as State property under the terms of the contract with WREMS. We also recommend that the Department assess the advisability of awarding future contracts to WREMS. We further note that we will refer our findings about WREMS and Crossroads to the Charities Bureau of the State Attorney General's Office for further investigation.

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#### *Other Questionable Expenditures*

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For the year ended June 30, 2005, WREMS was reimbursed a total of approximately \$237,000 for grant expenditures. We examined all the grant expenditures claimed by WREMS for this year to determine whether they were adequately documented, reasonable and consistent with the stated purpose of WREMS' contract with the Department (i.e., to support emergency

medical services in the eight-county service area).

We questioned certain costs beyond the costs related to leased space. We question about \$12,000 in other claimed expenses, because the expenses were either inadequately documented, excessive, or not consistent with the stated purpose of the contract.

For example, we question about \$6,000 in grant payments to WREMS' legal counsel, because the work done by the counsel in these instances was not consistent with the stated purpose of the contract. In one instance, the counsel was paid \$962 to facilitate the temporary reassignment of a WREMS employee to the City of Buffalo. Since there was no documentation indicating that this reassignment supported emergency medical services in the area, we question the appropriateness of using grant funds in this way.

Similarly, the counsel was paid about \$5,000 to help WREMS respond to Department questions about the appropriateness of some of its claimed grant expenditures (the Department's questions related to matters addressed in this report, and in particular, WREMS' relationship to its landlord, Crossroads). In responding to these questions, WREMS generally failed to provide the Department with the documentation it requested. Also the work done by the counsel did not help to resolve the Department's questions about the validity of WREMS' reimbursement claims. We question the appropriateness of using grant funds to pay for the counsel's work.

We also question an additional payment of \$2,364 that was made to the counsel, because the work done by the counsel is not adequately described in the available documentation. We further note that the

counsel is also a Board member and is paid a quarterly retainer of \$750.

In addition, we question \$1,200 that was paid to the Chairperson for travel expenses, because there was no documentation of the travel expenses that had been incurred by the Chairperson. Each quarter, the Chairperson is routinely paid \$300 for travel expenses, but is not required to submit documentation for these expenses. We also note that the Chairperson, who works for the City of Buffalo, drives a vehicle that is registered to the City.

We also question about \$2,400 in food-related expenses for the following reasons:

- For each quarterly Board meeting, WREMS charges the grant \$401 in catering expenses. We believe these expenses, which totaled \$1,604 in the year ended June 30, 2005, are excessive. (Catered lunch for 18 Board members.)
- We identified \$816 in restaurant bills that were charged to the grant. However, there is no documentation indicating that contract-related business was discussed at the restaurants.

In addition, we question the appropriateness of certain equipment purchases, because the number of items (computers and audio/visual equipment) appear excessive and thus more costly, than necessary for the purposes authorized by the contract. For example, we saw four flat-screen monitors and a state-of-the-art projection system. We question the reasonableness of these items. We note that the audio/visual equipment, which cost about \$11,000, was used for only six training classes in the year ended June 30, 2005.

We recommend the Department recover the questionable grant expenditures cited in this

report, unless WREMS can provide documentation showing the expenditures to be reasonable and consistent with the stated purpose of the contract. We also recommend the Department review the appropriateness of the computer-related equipment and audio/visual equipment purchased with grant funds, and determine whether the items were extravagant. Any grant funds expended beyond what was necessary should be recovered.

In a prior audit report (Report 2002-S-30, *Oversight of Emergency Medical Services Training and Program Improvement*, issued in September 2003), we found that EMS Program Agencies like WREMS did not always adequately account for their grant expenditures and sometimes used grant funds for inappropriate purposes. We recommended that the Program Agencies be more closely overseen by the Department. We believe the actions of WREMS underscore the need for closer oversight on the part of the Department.

#### **Recommendations**

1. Determine whether the building purchased by Crossroads should rightfully be claimed as State property under the terms of the contract with WREMS. Also determine whether facility related expenses were inappropriate and need to be recovered.
2. Assess the advisability of awarding future contracts to WREMS.
3. Recover the questionable grant expenditures cited in this report, unless WREMS can provide documentation showing the expenditures to be reasonable and consistent with the stated purpose of the contract.

(Department officials agree with the conclusions and recommendations in the report. Department officials have started their own audit of WREMS to explore certain matters further. At the present time, Department officials have not renewed the contract with WREMS, pending the completion of their audit. Upon completion of the audit, the Department will consider whether questionable grant expenditures can be recovered.)

#### **AUDIT SCOPE AND METHODOLOGY**

We conducted our audit in accordance with generally accepted government auditing standards. We audited the expenditures made by WREMS under its grant from the Department for the period July 1, 2004 through June 30, 2005. We interviewed appropriate Department officials and representatives from WREMS. We also visited WREMS' office and reviewed documentation relating to the grant expenditures.

In addition to being the State Auditor, the Comptroller performs certain other constitutionally and statutorily mandated duties as the chief fiscal officer of New York State, several of which are performed by the Division of State Services. These include operating the State's accounting system; preparing the State's financial statements; and approving State contracts, refunds, and other payments. In addition, the Comptroller appoints members to certain boards, commissions and public authorities, some of whom have minority voting rights. These duties may be considered management functions for purposes of evaluating organizational independence under generally accepted government auditing standards. In our opinion, these management functions do

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not affect our ability to conduct independent audits of program performance.

### **AUTHORITY**

The audit was performed pursuant to the State Comptroller's authority as set forth in Article V, Section 1 of the State Constitution and Article II, Section 8 of the State Finance Law.

### **REPORTING REQUIREMENTS**

Draft copies this report were provided to Department officials for their review and comment. Their comments were considered in preparing this report.

Within 90 days after final release of this report, as required by Section 170 of the Executive Law, the Commissioner of the Department of Health shall report to the Governor, the State Comptroller, and the leaders of the Legislature and fiscal committees, advising of the steps that were taken to implement the recommendations it contained, and/or the reasons certain recommendations were not implemented.

### **CONTRIBUTORS TO THE REPORT**

Major contributors to this report include David R. Hancox, Kenneth Shulman, Robert Wolf, Andrea Inman, Vicki Wilkins, Joseph Nopper and Dana Newhouse.



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**APPENDIX A - Response of Department Officials to Audit**

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**STATE OF NEW YORK  
DEPARTMENT OF HEALTH**

Corning Tower The Governor Nelson A. Rockefeller Empire State Plaza Albany, New York 12237

Antonia C. Novello, M.D., M.P.H., Dr.P.H.  
*Commissioner*

Dennis P. Whalen  
*Executive Deputy Commissioner*

March 13, 2006

Steven E. Sossei  
Audit Director  
Office of the State Comptroller  
110 State Street  
Albany, New York 12236

Dear Mr. Sossei:

Enclosed are the Department of Health's comments on the Office of the State Comptroller's (OSC) draft audit report (2005-S-65) entitled "Western Regional Emergency Medical System, Inc. Grant Expenditures."

Thank you for the opportunity to comment.

Sincerely,

A handwritten signature in black ink, appearing to read 'D. Whalen', written over a horizontal line.

Dennis P. Whalen  
Executive Deputy Commissioner

Enclosure

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cc: Ms. Geiger  
Mr. Griffin  
Ms. Hart  
Mr. Howe  
Ms. McMurdo  
Mr. Pisaneschi  
Mr. Quist  
Mr. Reed  
Mr. Stavis  
Ms. Wickins  
Mr. Wollner  
Mr. Wronski

**Department of Health  
Comments on the  
Office of the State Comptroller's  
Draft Audit Report 2005-S-65 on  
"Western Regional Emergency  
System, Inc. Grant Expenditures"**

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The following are the Department of Health's (DOH) comments concerning the recommendations contained in the Office of the State Comptroller's (OSC) draft audit report (2005-S-65) on "Western Regional Emergency Medical System, Inc. Grant Expenditures."

**Recommendation #1:**

Determine whether the building purchased by Crossroads should rightfully be claimed as State property under the terms of the contract with WREMS. Also determine whether facility related expenses were inappropriate and need to be recovered.

**Response #1:**

The Department agrees that Western Regional Emergency Medical System, Inc. (WREMS) created Western New York (WNY) Crossroads for the purpose of purchasing a building for WREMS. Department staff are currently conducting an audit of WNY Crossroads and WREMS records from prior contract years to determine the exact nature of this relationship and to determine if facility related expenses were inappropriate and need to be recovered. At this time, a final determination has not been made as to whether the building owned by WNY Crossroads should be considered State property and, if so, whether it is in the best interests of the State to claim it.

**Recommendation #2:**

Assess the advisability of awarding future contracts to WREMS.

**Response #2**

The Department has not at this time awarded a new contract to WREMS. A final determination cannot be made until the Department completes its ongoing audit of WREMS and WNY Crossroads corporate and contract records. It is anticipated that the audit will be completed soon, at which time the Department will determine if any future award with WREMS is possible. Any decision to award a contract will be determined by the overall results of the audit and the needs of the Western New York Emergency Medical Services system WREMS currently serves. Any Department decision to contract with WREMS would include significant new requirements that will help ensure future contract compliance.

**Recommendation #3:**

Recover the questionable grant expenditures cited in this report, unless WREMS can provide documentation showing the expenditures to be reasonable and consistent with the stated purpose of the contract.

**Response #3:**

The Department is conducting an audit of WREMS and WNY Crossroads to determine which grant expenditures are recoverable. After completion of the audit, the Department will be able to more completely determine recoverable expenditures.