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OFFICE OF THE STATE COMPTROLLER

August 21, 2003

Mr. Thomas A. Maul
Commissioner
Office of Mental Retardation
and Developmental Disabilities
44 Holland Avenue
Albany, NY 12229

Re: Report 2003-F-18

Dear Mr. Maul:

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, we have reviewed the actions taken by officials of the Office of Mental Retardation and Developmental Disabilities (OMRDD) as of June 5, 2003, to implement the recommendations contained in our audit report, *Hudson Valley DDSO Financial Management Practices* (Report 2000-S-45). Our report, which was issued on October 29, 2001, examined the internal controls over selected financial management practices at the Hudson Valley Developmental Disabilities Services Office (Hudson Valley DDSO or DDSO).

Background

The Hudson Valley DDSO (formerly known as Letchworth Village) coordinates and delivers services to individuals with developmental disabilities (consumers) who live in Sullivan, Orange, Rockland, and Westchester counties. The Hudson Valley DDSO operates 130 community residences (group homes) for more than 1,000 consumers and oversees 92 family care residences. For the 2002-03 fiscal year, the Hudson Valley DDSO's budgeted and actual personal service costs were \$78.1 million (including \$1.2 million for overtime) and \$79.3 million (including \$5.1 million for overtime), respectively.

Summary Conclusions

In our audit, we found that the Hudson Valley DDSO needed to strengthen its internal controls. For example, in a number of instances, we found that employees were paid for overtime even though the overtime hours they reported they worked had not been documented adequately. We also determined that, in many cases, the need for overtime had not been documented. We further determined that competitive bidding requirements were often not followed, and that consumers' cash accounts had not been maintained adequately at four of the five group homes we visited.

In our follow-up review, we found that Hudson Valley DDSO officials have made significant progress in implementing our recommendations.

Summary of Status of Prior Audit Recommendations

Hudson Valley DDSO officials have implemented all eight of our prior audit recommendations.

Follow-up Observations

Recommendation 1

Obtain written prior approval for overtime before it is incurred.

Status - Implemented

Agency Action - The Hudson Valley DDSO has taken several steps to ensure that approvals of overtime pay are obtained properly. On March 8, 2001, the payroll department was given written instructions not to process any payments for overtime unless the overtime report had been fully completed, including entries of proper signatures, dates, and the work-shift during which the overtime was incurred. Procedures issued on October 24, 2001, and updated in July 2002, required that all non-emergency overtime be authorized through a prior written approval.

In May 2002, the Hudson Valley DDSO conducted its own internal control review to assess the internal control weaknesses found in our prior audit. The reviewers found that sign-in/out sheets for their sample employees had been completed in accordance with policies, overtime reports were complete and accurate, and all overtime could be traced to appropriate documentation.

We also tested the time records of a random sample of five employees to determine whether overtime paid to them had been approved properly. We found that the overtime reports had been completed properly and approved; however, documenting prior approval was not necessary because all five of the employees we selected worked at group homes where proper coverage does not require prior approval; it is considered a health and safety issue. We then selected two more employees whose responsibilities were not critical to residential care and found that their overtime had been approved before they performed the work.

Recommendation 2

For those employees in our sample, strengthen internal control over staff overtime. These should include, but not be limited to, the following measures:

- *Ensure that the overtime reports are properly signed and dated by the site location supervisor, the work location supervisor and the team leader/department head. The reports should also indicate the work shifts in which the overtime occurred.*

- *Reconcile the overtime recorded on the overtime report with the payroll register to ensure the correct amount of overtime is paid.*
- *Require all employees to properly document the daily time sheet by showing their regular work hours, listing any overtime hours and signing the time sheet.*
- *Ensure that daily time sheets are properly certified and dated by the employees' immediate supervisors.*
- *Comply with its policies with regard to overtime pay or travel to work non-mandated overtime and excessive work hours.*

Status - Implemented

Agency Action - Hudson Valley DDSO officials generally meet on a four-week cycle to discuss the facilities' staffing plan. At these meetings, they make recommendations on controlling personal service expenses, including overtime. The Hudson Valley DDSO also has an active "Overtime Management Committee" made up of Deputy Directors, Human Resource Department staff, and team leaders, that meets quarterly to discuss overtime issues. In addition, a Staff Utilization Committee, made up of team leaders from all of the residences, meets biweekly to discuss staff needs and deployment.

To avoid errors similar to those noted in our prior audit report, the new procedures implemented by the DDSO on March 8, 2001, require the payroll clerk to recalculate the total number of hours worked in each two-week period to ensure the accuracy of the hours calculated by the site supervisor. On March 16, 2001, and again in April 2001, the Deputy Director issued memos to all of the staff concerning appropriate sign in/out procedures, the need to document overtime worked, and the importance of completing the time and attendance accruals and the overtime report properly. In May 2001 and February 2002, staff also received in-service training that provided a review of proper time and attendance practices and other time and attendance matters, including the measures listed in our audit recommendation.

The DDSO's own internal control review of time and attendance controls, conducted in May 2002 to assess control weaknesses found in our prior audit, found that staff were in substantial compliance with overtime policies and procedures. Our follow-up review of overtime also found that staff and supervisors were in compliance with DDSO policies.

Finally, the Hudson Valley DDSO recouped overtime payments made to employees who had volunteered for overtime but were not eligible under the DDSO's policies concerning overtime pay for travel. In addition, the Human Resource Department sent a memo to all staff that clarified the policies regarding the payment of overtime for travel.

Recommendation 3

Require all safety officers to document their overtime worked.

Status - Implemented

Agency Action - As a result of our audit, disciplinary actions were taken and the security staff received training on the proper completion of time and attendance documents, including the documentation of overtime worked. In addition, the Hudson Valley DDSO has since re-aligned its security needs to the day shift only; it has also limited the size of its security staff and changed their responsibilities. As a result, the security staff has incurred little or no overtime. In addition, new payroll procedures require the completion of an overtime report by supervisors before such payments are made, as well as the independent verification of overtime by a staff person outside the payroll unit.

Recommendation 4

For our sampled group homes, comply with established internal controls over consumer funds to properly account for and safeguard consumer cash. These controls should include, but not be limited to, the following:

- *Verify that all consumer personal allowance transactions are promptly and accurately entered onto the ledger cards, and that consumer funds are used within two days or redeposited.*
- *Accurately post withdrawals from the CCS to consumers' in-house accounts in a timely manner.*
- *Maintain adequate documentation for consumers' personal allowance transactions.*
- *Ensure that the consumer and a designated employee authorize all receipts.*
- *Document the name of the person who picks up consumer account checks from the Business Office, and the date this occurs.*
- *Indicate the name of the employee requesting consumer funds on Form 73 A.*
- *Reiterate to group home directors that the money of deceased consumers must be returned to the Business Office immediately.*

Status - Implemented

Agency Action - The Hudson Valley DDSO conducts unannounced audits of all of its residential housing units during the year. We reviewed a sample of these audits, selected at random from the 2001-02 annual plan, to determine whether they would provide sufficient assurance that controls over consumer cash are adequate and that staff are trained properly in accounting for consumer transactions. We found that the audits provide a comprehensive overview of consumer funds and personal items (radios and televisions, etc.), and that staff are in compliance with policies and procedures. We also reviewed a sample of withdrawal forms (Form 73 A) to determine whether the forms were being completed as required by a Business Office policy implemented in October 2002. We found that staff were in

compliance with procedures for accounting for consumer cash withdrawals, including the controls listed in our audit recommendation. In addition, the Business Office conducted consumer cash training for all of the staff on April 10, April 17, and August 7, 2001, and again in October 2002.

Recommendation 5

For purchases at the sampled group homes, comply with its Rules and purchasing procedures. Such compliance should ensure that:

- *All purchase documents are properly authorized and dated; and,*
- *Policies and procedures for bidding thresholds in purchasing goods and services are adhered to.*

Status - Implemented

Agency Action - In November 2002, the DDSO implemented new purchasing procedures based on the New York State purchasing guidelines that went into effect in July 2002. These procedures replaced the old Hudson Valley DDSO procedures and bring the DDSO into compliance with our audit recommendation. Staff received training in the new procedures in November 2002. The DDSO also redesigned its purchase request form, which now requires additional approvals and other statements that were recommended as a result of our prior audit. When we tested a sample of recent purchase transactions to determine whether staff were adhering to changes implemented by the DDSO, we found that the sample purchases complied with the new procedures.

Recommendation 6

Comply with relevant procedures for the purchase of goods and services related to CMM projects, including:

- *Completing proper documentation (including required dates, evidence of competitive bidding) of the receipt of goods and services before payment is made.*
- *Grouping together similar purchases and complying with the required bidding procedures.*

Status - Implemented

Agency Action - From the report maintained by the DDSO of all projects contracted during the fiscal year 2002-03, we selected a sample of Community Minor Maintenance (CMM) projects and reviewed the documentation for the projects to assess the Hudson Valley DDSO's compliance with relevant procedures related to the purchase of services for CMM projects. We found that each project had been supported properly in accordance with the DDSO's purchasing requirements, including documenting the receipt of goods and services before payment and compliance with required bidding procedures.

Recommendation 7

For our sampled group homes, ensure that all equipment items meeting the threshold of \$500 are accounted for, recorded on the Equipment Inventory System, and properly tagged.

Status - Implemented

Agency Action - The Hudson Valley DDSO conducts annual unannounced audits of its residential homes. These audits are intended mainly to account for consumer funds, but audit administrative staff also test equipment inventory records by using tag numbers to compare the DDSO's equipment inventory records with the actual equipment in the house. According to the DDSO's guidelines, any differences, including tag numbers, between the DDSO's records and what is actually at the home should be identified. We visited a residential home to verify that the inventory records were complete and that equipment items at the home had been tagged properly. We were able to account for all of the items selected from the inventory records.

Recommendation 8

Reassess inventorying equipment items that are less than \$500 that are susceptible to theft.

Status - Implemented

Agency Action - During 2002, the Business Office conducted an analysis of equipment purchases to determine the cost effectiveness of inventorying items with a total dollar value of less than \$500. The analysis showed that, of a total of 227 equipment items, 15 could not be found; all of these items were appliances such as dishwashers, clothes washers, and clothes dryers, none of which would be classified as high-risk items. Based on this analysis, the DDSO decided not to change its inventory policies.

Major contributors to this report were John Buyce, Joel Biederman, and Don Wilson.

We thank OMRDD and Hudson Valley DDSO management and staff for the courtesies and cooperation extended to our auditor during this review.

Very truly yours,

Frank J. Houston
Audit Director

cc: Vince Sleasman, Bureau of Fiscal Audit, Division of Quality Assurance
Deirdre A. Taylor, Division of the Budget