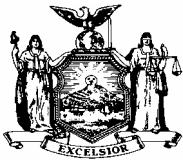


ALAN G. HEVESI
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STATE OF NEW YORK
OFFICE OF THE STATE COMPTROLLER

October 28, 2004

Mr. John A. Johnson
Commissioner
Office of Children and Family Services
52 Washington Street
Rensselaer, NY 12144-2796

Mr. Chauncey E. Parker
Director
Division of Criminal Justice services
4 Tower Place
Albany, NY 12203

Re: Report 2004-F-20

Dear Messrs. Johnson and Parker:

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 followed up on the actions taken by officials of the Office of Children and Family Services (OCFS) and the Division of Criminal Justice Services (DCJS) to implement the recommendations contained in our audit report, *Lake Plains YMCA* (Report 2002-S-20).

Background, Scope and Objectives

The Young Men's Christian Association (YMCA) is a community-based not-for-profit service organization. One of 2,400 local YMCAs nationwide, the Lake Plains YMCA (Lake Plains Y) serves Medina and the surrounding area of western New York State. Like other local YMCAs, it offers youth and community programs, including health and fitness, childcare and sports. The goals of the Lake Plains Y are to "nurture the healthy development of children, encourage positive behavior in teens, strengthen families and help our community become safer and healthier." Management responsibility at the Lake Plains Y rests with a Board of Directors (Board) and an Executive Director (Director).

Major sources of funding for the Lake Plains Y include membership and program revenue, contributions and grants from the United Way, several State agencies and some private foundations. From December 1998 through September 2002, the Lake Plains Y received a total of \$190,275 in State and Federal grants, comprising \$159,607 in State funds and \$30,668 in Federal funds. OCFS provided for \$152,793 of the above State funds, and DCJS provided the Federal funds through a local government agency.

In March 2002, the New York State Police in Albion, New York requested the assistance of

the Office of the State Comptroller (OSC) concerning an alleged theft of funds from the Lake Plains Y. The State Police, who were working in conjunction with the Attorney General's Office, asked OSC to assist their investigation by conducting a financial audit of the Lake Plains Y.

Our initial audit report, which was issued on April 21, 2003, examined selected aspects of cash receipts and disbursements at the Lake Plains Y for the period December 1, 1998 to September 30, 2002. We determined that State and Federal funds that were supposed to support youth and community programs were instead diverted to unauthorized accounts or stolen before they were deposited. This fraudulent activity occurred because a corrupt official abused his position of trust and took advantage of the fact that the Lake Plains Y had virtually no system of internal control, and oversight entities did not effectively monitor the legitimacy of reported program expenses. The objective of our follow up, which was conducted in accordance with Generally Accepted Government Auditing Standards, was to assess the extent of implementation, as of June 29, 2004, of the seven recommendations included in our initial report.

Summary Conclusions and Status of Audit Recommendations

We found that OCFS and DCJS officials have corrected some of the problems we identified. However, additional improvements are needed. Of the seven prior audit recommendations, four recommendations have been implemented, one recommendation has been partially implemented, and two recommendations are no longer applicable.

Follow-up Observations

Recommendation 1

To OCFS and DCJS:

Instruct the Genesee/Orleans County Youth Bureau and the Orleans County Department of Probation to require that the Lake Plains Y management establish an effective system of internal control that includes, but is not limited to, the following features: a strong control environment that communicates management's commitment to and support for controls; effective control policies and procedures that safeguard assets and protect the integrity of financial statement information; and methods of regularly monitoring whether controls are working effectively.

Status - Not Applicable

Agency Action - Neither the Genesee/Orleans County Youth Bureau nor the Orleans County Department of Probation has a current funding relationship with the Lake Plains Y. As a result, neither agency can require that the Lake Plains Y management implement this recommendation.

Recommendation 2

To OCFS and DCJS:

Obtain independent assurance that an effective system of internal controls is in place. This assurance can be based on either a formal internal control evaluation by the Youth Bureau or County Department of Probation at those entities receiving funding through OCFS/DCJS, or an independent audit of the entity by a certified public accounting firm.

Status - Not Applicable

Agency Action - Neither the Genesee/Orleans County Youth Bureau nor the Orleans County Department of Probation has a current funding relationship with the Lake Plains Y that would necessitate monitoring the Lake Plains Y.

Recommendation 3

To OCFS:

Take the following actions regarding State funds:

- *Recover \$72,226 for unsupported SDPP [Special Delinquency Prevention Program] and Safe Places expenses.*
- *Recover \$49,250 for false claims paid from legislative grant monies from the Lake Plains Y.*
- *Do not reimburse Orleans County for \$6,847 in invalid Safe Places expenses submitted to the County but not yet submitted to OCFS.*

Status - Partially Implemented

Agency Action - In a letter dated on May 21, 2004 to Orleans County (County), OCFS agreed not to recover \$20,518 of the \$72,226 for expenses made for a climbing wall based on the fact that documentation was submitted that: a) the climbing wall expenditures were made; and b) that the climbing wall has been made available to and used by youth of the community in 2002 and 2003. OCFS has not yet received payment of the balance of \$51,708. We believe that OCFS should pursue the recovery of the \$20,518 from Orleans County as well because the monies were not spent for their intended purpose. The climbing wall was to be constructed for an after-school program that was funded from 1999 to 2001. The wall was not completed until 2001, and was open to use only in the evenings, not in the afternoons when the after-school program was open. Further, the monies used for the climbing wall that was built, were not the same funds in question.

On October 29, 2003, OCFS asked the Attorney General's Civil Recovery Bureau to assist in recovering \$49,250 from the Lake Plains Y. A settlement of \$10,000 by the Attorney General was reached with the Lake Plains Y.

According to OSC's payment history database, OCFS did not reimburse Orleans County for

\$6,847 in invalid Safe Places expenses.

Recommendation 4

To OCFS:

Work with local representatives and Genesee/Orleans Youth Bureau personnel to establish a list of “red flags” that monitors can look for to identify serious potential abuses or misuses of funds early on.

Examples of such “red flags” include:

- *check with a signature stamp for a second endorser; and*
- *un-cancelled checks submitted as supporting documentation for expenditures*

Status - Implemented

Agency Action - OCFS provided us with documentation that it has worked with the Youth Bureau to establish a list of red flags that Youth Bureau personnel can use to identify serious potential abuses or misuse of funds early on. OCFS also documented that program staff met with the Youth Bureau in May of 2003 and discussed possible red flags to look for in programs that the Youth Bureau monitors. Subsequently, OCFS's Audit and Quality Control unit developed and provided to the Youth Bureau a procedure containing step-by-step instructions for on-site fiscal monitoring of contract programs operated by not-for-profits, and identifies potential irregularities in personal service, contractual/consultant agreements, travel and equipment expenditures, as well as strategies to identify these irregularities.

Recommendation 5

To OCFS:

Work with the Genesee/Orleans Youth Bureau to facilitate appropriate fiscal monitoring of new programs by the Youth Bureau in the first year of operation to determine whether the programs are in programmatic and fiscal compliance.

Status - Implemented

Agency Action - During 2003, the Youth Bureau implemented new policies and procedures regarding fiscal monitoring including:

- Unannounced, drop-in visits at least once a year for all programs directly monitored by the Youth Bureau;
- For new programs, a requirement that all supporting documents, including payroll registers, fronts and backs of cancelled checks and receipts, be submitted with all vouchers; and
- A requirement for newly-funded agencies to complete a contract monitoring form and to perform an intensive site visit to be conducted by the Youth Bureau within three months of the program's start (intensive monitoring).

We verified that unannounced, drop-in visits were made for all programs receiving funding through OCFS in 2003 that were directly monitored by the Youth Bureau.

No new programs were funded after the close of fieldwork of our initial audit (September 2002). Therefore, implementation of supporting documentation and intensive monitoring requirements for new programs could not be verified.

OCFS also met with the Youth Bureau in May of 2003 and provided additional suggestions for improving monitoring of programs including suggesting that all programs provide supporting documentation with vouchers. This suggestion was adopted by the Youth Bureau in 2004, and included as part of their Child and Family Service Plan for 2004 to 2006.

Recommendation 6

To DCJS:

Recover \$28,468 of Federal monies improperly reimbursed.

Status - Implemented

Agency Action - DCJS provided supporting documentation that \$28,468 of Federal monies improperly reimbursed was recovered from Orleans County. These monies were remitted to the appropriate Federal operating fund.

Recommendation 7

To DCJS:

Require that the Orleans County Department of Probation:

- *Monitor compliance of Probation employees with both established internal controls and relevant laws and regulations.*
- *Require its program supervisors to monitor subcontractors' compliance with programmatic and fiscal requirements, such as documentation of expenses.*
- *Investigate the circumstances pertaining to the payment of \$2,500 by the Lake Plains Y to a county employee and if warranted take appropriate disciplinary action.*

Status - Implemented

Agency Action - DCJS no longer has a funding relationship with the Orleans Probation Department and, therefore, does not have a current role in monitoring the Department. However, until mid-2003, DCJS did provide program funding to the Orleans Probation Department and, during that period, did implement the recommendation. Specifically, the DCJS Grant and

Audit unit conducted a site visit in September of 2003 to the Orleans County Probation Department.

The Grant and Audit unit provided support that, during this visit, it conducted testing to verify compliance with internal controls and relevant laws and regulations by the Department, and that support existed that the Department had monitored subcontractors' compliance with programmatic and fiscal requirements. In addition, they provided support that they also inquired about the \$2,500 payment by the Lake Plains Y, and were informed by the Department that an investigation was conducted and that disciplinary action was found to be warranted. However, prior to disciplinary action being initiated by the Department, the employee resigned.

Major contributors to this report were Richard Sturm and Tina Kim.

We would appreciate your response to this report within 30 days, indicating any actions planned to address the unresolved issues discussed in this report. We also thank the management and staff of OCFS and DCJS for the courtesies and cooperation extended to our auditors during this process.

Very truly yours,

William P. Challice
Audit Director

cc: Robert Barnes, Division of the Budget
Lynn Dobriko, Office of Children and Family Services
Ben Conboy, Division of Criminal Justice Services