
**Alan G. Hevesi
COMPTROLLER**



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**OFFICE OF THE
NEW YORK STATE COMPTROLLER**

DIVISION OF STATE SERVICES

**OFFICE OF MENTAL
RETARDATION AND
DEVELOPMENTAL
DISABILITIES**

**CAPITAL DISTRICT
DEVELOPMENTAL
DISABILITIES SERVICES
OFFICE SELECTED
FINANCIAL MANAGEMENT
PRACTICES**

Report 2005-S-49

AUDIT OBJECTIVE

Our objective was to determine whether Capital District Developmental Disabilities Services Office (Capital District) has established effective internal controls over consumer funds and selected payroll and purchasing practices.

AUDIT RESULTS - SUMMARY

We determined that Capital District's internal controls over consumer funds and selected payroll and purchasing practices were generally adequate. However, several opportunities for internal control improvements still exist.

We found that Capital District could have saved approximately \$150,000 during fiscal year 2004-2005 by increasing its use of the State's Purchasing Card for small dollar purchases of \$67 or less. Capital District can realize greater cost savings if it extends the use of the Purchasing Card for larger dollar amounts.

Capital District needs to improve its oversight and controls over consumer funds at the family care homes. We found that receipts for consumer purchases were not always maintained; consumer account ledger cards were not always accurate or reviewed; and cash balances in the accounts exceeded the required \$150-per-consumer limit at various times during the audit period.

Capital District needs to prepare a budget for overtime based on realistic estimates and monitor overtime use against that budget. We found in fiscal year 2003-2004, Capital District's overtime costs exceeded its overtime budget by 256 percent. This trend continued in 2004-2005 when the overtime cost exceeded the budget by 319 percent and amounted to \$3.6 million, in contrast to the \$867,000 budgeted.

Office of Mental Retardation and Developmental Disabilities (OMRDD) and Capital District needs to fully meet the requirements of the law with respect to the State's Minority and Women-Owned Business Enterprise (MWBE) Program. This would ensure that firms owned by minorities and women are awarded a "fair share" of State contracts.

Our report contains four recommendations for improving Capital District's operations. Capital District officials agreed with our recommendations and have taken steps to implement them.

This report dated, July 19, 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, 11th Floor
Albany, NY 12236

BACKGROUND

OMRDD and Capital District provide a comprehensive system of care for more than 120,000 mentally retarded and developmentally disabled persons (“consumers”) and their families through 13 Developmental Disabilities Services Offices (DDSOs) and a network of not-for-profit private agencies and State-operated programs based in the communities. Capital District is responsible for coordinating and delivering services to consumers living in Albany, Fulton, Montgomery, Rensselaer, Saratoga, Schoharie, Schenectady, Warren, and Washington counties. Capital District currently operates 80 community-based individualized residential alternatives (group homes), 2 campus residence programs, and 6 day care habilitation programs; and supervises 78 family care homes that collectively serve 919 consumers. Family care providers are private individuals whose homes have been certified by the DDSO as family care homes where consumers can be placed. For the fiscal year ended March 31, 2005, Capital District incurred total expenditures of \$71.3 million, including \$59.9 million for personal service costs; and employed approximately 1,415 staff.

AUDIT FINDINGS AND RECOMMENDATIONS

Consumer Funds

Capital District’s Business Office maintains a cash account for every consumer. Typical transactions include deposits of Social Security checks and withdrawals for the purchase of items the consumers need or want. Withdrawals are also made to replenish cash in the consumers’ personal allowance accounts which are maintained for them at the group homes or family care residences to meet their personal and recreational needs.

Supporting documentation is maintained at the group homes; for family care homes, it is kept at the local county offices. As of September 6, 2005, the cash balance in the consumers’ accounts totaled \$1.7 million.

To assess internal controls over consumer funds, we visited four group homes and four family care homes and performed tests to determine whether Capital District staff complied with Central Office and Capital District procedures for controlling consumer cash. We determined that management oversight and controls over consumers’ personal allowance accounts were generally adequate at the group homes. However, we found several control weaknesses at the family care homes where the responsibility to oversee the accounts was delegated to family care liaisons who have very little financial expertise. These weaknesses create an increased risk that monies could be misappropriated or misused by those responsible for safeguarding them.

We judgmentally selected 15 consumers living at 4 family care homes. From the personal allowance accounts of these 15 consumers, we selected 46 transactions (withdrawals) totaling \$1,337 and determined whether staff at the homes had properly prepared, authorized, and retained the required supporting documentation for the transactions. Our review revealed the following:

- Capital District’s policy for family care homes requires that receipts be retained for all expenditures of \$10 or more. We found no supporting documentation for 7 of the 46 sampled transactions (15 percent) totaling \$164.
- Entries on the consumer’s account ledger cards had not been initialed or

signed, and the ledger cards did not always include appropriate descriptions, such as the vendor, product, date of purchase, or amount paid.

- For two sampled consumer accounts, the recorded ending balances were understated by as much as \$20. Without accurate balances, the residence staff would not know the actual amount of funds available for consumer use.
- The cash balances for 5 of the 15 sampled consumers exceeded the required \$150-per-consumer limit at various times during our audit period, with the largest balance totaling \$245.

Capital District officials agreed with our observations and indicated they will ensure the Family Care Liaisons evaluate family care providers' areas of weakness and provide appropriate training.

Consumer Purchase Request

According to the Capital District Policy Manual, a request for a consumer purchase that exceeds \$50 should have prior approval by the Capital District's Client Cash Offices before the purchase is made. The Policy also requires the funds be made available to the consumer within three days after his/her request is received.

We selected a random sample of 23 consumer purchase requests at the Schenectady and Saratoga Client Cash Offices. Our review found the following:

- The Client Cash Office took more than three business days to authorize three of the purchase requests - including one that took eight days.

- We could not determine whether four purchase requests were processed timely because the dates they were received by the Client Cash Office were not indicated. Delays in authorizing the purchase requests can have a negative impact on the availability of funds to the consumers.

Capital District officials replied they will provide appropriate training on the consumer purchase request process to the appropriate staff.

Recommendation

1. Provide the necessary training to the appropriate staff to address the following:
 - Maintain supporting documentation for disbursements made from the consumers' personal allowance accounts at the family care homes.
 - Maintain accurate consumer account balances at the family care homes.
 - Review and authorize transactions on the account ledger cards for consumers at the family care homes.
 - Enforce the policy that requires the amount of cash on hand for consumers at family care homes not exceed the \$150-per-consumer limit.
 - Ensure that consumers' purchase requests are authorized by the Client Cash Office in a timely manner.

Payroll Practices

For the fiscal year ended March 31, 2005, Capital District's personal service costs for approximately 1,415 employees totaled \$59.9 million, including \$3.6 million in overtime

costs. After using computer-assisted audit techniques to review all of Capital District's payroll transactions for that year, we selected certain payroll practices for further examination: the handling of un-cashed State checks, changes to employees' personal direct deposit accounts, and payroll exceptions. We also performed floor checks to verify the existence of recorded employees. We found all tested transactions to be appropriate.

Budgeting for Overtime

We found that Capital District's budgeting and monitoring practices for overtime expenditures need improvement. Capital District officials are responsible for monitoring overtime usage and for seeking ways to control overtime costs while still providing adequate services. Although they acknowledged their overtime expenditures grew significantly during our audit period, an increase of 40 percent between fiscal year 2002-03 and 2004-05, they maintain that Capital District stayed within its total personal service allocation and within its overall budget during that period.

According to OMRDD officials, Central Office initially budgets Capital District's overtime costs at 1 to 2 percent of its personal service cost allocation. Then Capital District management tracks overtime costs against that budget. Based on the costs being incurred, the overtime budgets are updated periodically with cost projections for the remainder of the year. However, as indicated in the following table, actual costs are significantly higher than 2 percent of Capital District's personal service cost allocation. Thus, the 2 percent budget for overtime seems unrealistic.

Budgeted versus Actual Overtime Costs			
Fiscal Year	Budgeted Overtime Costs (2% of Personal Service Allocation)	Actual Overtime Costs	Percent Actual Costs Exceeded Budgeted Costs
2002-03	\$827,002	\$2,592,902	213.53%
2003-04	\$829,000	\$2,949,889	255.84%
2004-05	\$867,000	\$3,628,747	318.54%

We recognize that Capital District should be able to use the amount of overtime required to meet their consumers' needs. However, overtime cost is an expensive way to staff residences. While Capital District has thus far stayed within its total overall budget for personal services costs, including overtime costs, it may not be able to do so in the future if overtime costs continue to rise. We believe officials could avoid overspending in the future by actively planning and controlling the growth of overtime costs. To help anticipate and control overtime costs, Capital District should prepare a personal service budget with realistic estimates for overtime and then monitor against that budget. In our Report, 2001-S-54 entitled *Overtime Expenditures*, issued on November 27, 2002, we made the same recommendation about preparing a budget with reasonable estimates and monitoring against that budget. Capital District should make a concerted effort to comply with our prior and current recommendations.

Recommendation

2. Prepare a budget for overtime costs based on realistic estimates and monitor overtime use against that budget.

Non-Personal Service Expenditures

Using data analysis software, we reviewed a download of expenditure transactions for the

State's fiscal year ended March 31, 2005. During this period, Capital District processed 13,117 vouchers totaling \$71,293,837, of which \$11.4 million was for non-personal service expenditures. For our review, we judgmentally selected 12 client-specific expenditure types for our audit period such as petty cash, consumer program supplies, cellular phones, and consumer prescriptions and groceries. We examined 54 vouchers for non-personal service expenditures and determined that all of these expenses were appropriate and allowable.

Small Dollar Purchases

The State Comptroller's Bulletin G-196 - "Small Dollar Purchases" encourages State agencies to increase use of more cost-effective payment methods and to avoid the expenses associated with the State's traditional voucher payment system. The Bulletin also encourages the use of the State's Purchasing Card program, which is designed to be an efficient and cost effective way to expedite small dollar purchases. The Purchasing Card enables cardholders to make authorized purchases directly from a vendor without processing purchase orders or purchase authorizations. By using the Purchasing Card for small dollar purchases, a State agency can process one monthly cover voucher to pay the credit card company rather than processing many vouchers for individual purchases.

A study conducted by American Express and Ernst & Young estimated that it costs large organizations about \$67 to process transactions under the traditional purchasing vouchering system. Using a State Purchasing Card could reduce processing costs to about \$11 per transaction.

Capital District's Purchasing Card program was designed to simplify such small

purchases by shortening the approval process and reducing paperwork. We determined that 2,686 (20 percent) of the 13,117 vouchers processed during fiscal year 2004-2005 were for small purchases costing \$67 or less. Our review of these vouchers revealed that they were for supplies that should have been purchased with the State's Purchasing Card. This could have saved Capital District approximately \$56 per transaction, resulting in a total savings of \$150,416. Capital District can realize greater cost savings if it extends the use of the State Purchasing Card for small purchases above the \$67 amount.

Capital District officials agreed that its Purchasing Card program should be used more frequently for small dollar purchases and indicated they are working to identify the transactions in which the Purchasing Card should be used instead of a voucher.

Recommendation

3. Encourage the use of the State's Purchasing Credit Card for all small dollar purchases.

Minority and Women-Owned Business Enterprises Program

Article 15-A of the Executive Law, which was signed into law on July 19, 1988, authorized the creation of an Office of Minority and Women-Owned Business Enterprises (MWBE) to ensure that firms owned by minorities and women are awarded a "fair share" of State contracts. Under this statute, State agencies are charged with establishing employment and business participation goals for such firms.

We assessed Capital District's efforts to meet the requirements of this law. Capital District itself is not required to have MWBE-related goals. It is the responsibility of OMRDD to

set such goals and implement them, and to enforce the provisions of the MWBE program throughout the entire agency. According to the Annual Goal Plan OMRDD submitted to the State Department of Economic Development for fiscal year 2004-05, minority businesses are to receive 1 percent of OMRDD's contracts, while another 1 percent is to be awarded to businesses owned by women. We found that OMRDD exceeded the stated goal it set for women-owned businesses, but the agency did not reach its goal for those owned by minorities. Just 0.57 percent of its contracts were awarded to minority-owned businesses for fiscal year 2004-05. Capital District officials informed us that they were not aware of the MWBE program and its requirements. Capital District missed OMRDD's stated goals for both women-owned and minority-owned businesses. Just 0.03 percent of its contracts were awarded to minority-owned businesses and 0.76 percent for women-owned businesses for fiscal year 2004-05. If OMRDD is to reach its stated goals, it must make sure that information is being provided to the staff at each DDSO, apprising them of the MWBE program and its requirements.

Recommendation

To OMRDD:

4. Provide information on the MWBE program to each DDSO. Capital District should then comply with the MWBE Program and its stated goals established by OMRDD.

AUDIT SCOPE AND METHODOLOGY

We did our performance audit according to generally accepted government auditing standards. We audited Capital District's internal controls over consumer funds, and selected payroll and purchasing practices for

the period April 1, 2004 to December 9, 2005. Internal controls are defined as the integration of the activities, plans, attitudes, policies, and efforts of the people of an organization working together to provide reasonable assurance the organization will achieve its objectives and mission.

To accomplish our objective, we reviewed the following areas of Capital District operations: organizational culture; consumer funds; selected payroll practices, including floor checks; employee payroll exceptions; dual employment; and non-personal service expenditures.

We analyzed financial data and records, interviewed Capital District managers and staff, and reviewed samples of transactions. We used Audit Control Language (ACL) to analyze payroll transactions and anomalies in expenditures. We also reviewed contracts, vouchers, and consumers' accounts to determine whether there was appropriate documentation, authorization, and review in accordance with the policies and procedures of both OMRDD and Capital District.

In addition to being the State Auditor, the Comptroller performs certain other duties as the chief fiscal officer of New York State that have been mandated by statute and the State Constitution. The Division of State Services is responsible for several of these, including operation of the State's accounting system; preparation of the State's financial statements; and approval of State contracts, refunds, and other payments. In addition, the Comptroller appoints members - some of whom have minority voting rights - to certain boards, commissions, and public authorities. These duties may be considered management functions for purposes of evaluating organizational independence under generally accepted government auditing standards. In our opinion, they do 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

A draft copy of this report was provided to Capital District officials for their review and comment. Their comments were considered in preparing this report, and are included as Appendix A. Capital District officials agreed with our recommendations and have taken steps to implement them.

Within 90 days of the final release of this report, as required by Section 170 of the Executive Law, the Commissioner of OMRDD shall report to the Governor, the State Comptroller, and the leaders of the Legislature and fiscal committees, advising what steps were taken to implement the recommendations contained herein, and where recommendations were not implemented, the reasons therefor.

CONTRIBUTORS TO THE REPORT

Major contributors to this report include William Challice, David R. Hancox, Sheila Emminger, Al Kee, Todd Seeberger, Ottavio Nicotina, Jennifer Mitchell, David Reilly, Shakesha Coleman, and Marticia Madory.

APPENDIX A - AUDITEE RESPONSE

George E. Pataki
Governor



Thomas A. Maul
Commissioner

STATE OF NEW YORK
OFFICE OF MENTAL RETARDATION AND DEVELOPMENTAL DISABILITIES

44 HOLLAND AVENUE
ALBANY, NEW YORK 12229-0001
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www.omr.state.ny.us

June 26, 2006

Mr. Albert Kee
Office of the State Comptroller
Division of State Services
State Audit Bureau
123 William Street – 21st Floor
New York, NY 10038

Dear Mr. Kee:

The Office of Mental Retardation and Developmental Disabilities (OMRDD) has reviewed the Office of the State Comptroller's draft audit report regarding OMRDD's Capital District Developmental Disabilities Services Office's Selected Financial Management Practices (Report No. 2005-S-49). OMRDD's response to the recommendations is attached.

Thank you for the opportunity to respond.

Sincerely,

A handwritten signature in cursive script that reads "James F. Moran".

James F. Moran
Deputy Commissioner

JFM/JG

Attachment



Providing supports and services for people with developmental disabilities and their families.



OMR26.04 (05/01)

Office of Mental Retardation and Developmental Disabilities (OMRDD)
Response to the Office of the State Comptroller's
Draft Audit Report No. 2005-S-49
Capital District Developmental Disabilities Services Office
Selected Financial Management Practices

Recommendation #1:

Provide the necessary training to the appropriate staff to address the following:

- Maintain supporting documentation for disbursements made from the consumers' personal allowance accounts at the family care homes.
- Maintain accurate consumer account balances at the family care homes.
- Review and authorize transactions on the account ledger cards for consumers at family care homes.
- Enforce the policy that requires the amount of cash on hand for consumers at family care homes not exceed the \$150-per-consumer limit.
- Ensure that consumers' purchase requests are authorized by the Client Cash Office in a timely manner.

Response:

Capital District Developmental Disabilities Service Office (Capital District DDSO/DDS) is currently preparing a training curriculum for the Family Care Liaisons and Family Care providers, as appropriate. The training is planned to take place by September, 2006 and will include:

- Maintenance of support documentation for personal allowance disbursements,
- Maintenance of current and accurate personal allowance ledgers,
- For Family Care Liaisons, review and authorization of transactions on account ledger cards,
- Reinforcement of the \$150- per-consumer limit.

In addition to the above scheduled training, the Client Cash office has been instructed to process all consumer purchase requests in a timely manner.

Recommendation #2:

Prepare a budget for overtime costs based on realistic estimates and monitor overtime use against the budget.

Response:

Capital District DDSO understands the need for prudent use of overtime. To that end, the DDSO recently implemented two key controls to better forecast and monitor staffing and overtime needs.

- A part-time position was developed to review current staffing levels district wide. The position reports directly to the director.
- The DDSO has created a bi-weekly meeting of administrators to review overtime use. This committee has developed end-user reports and reviews for overtime trends.

Office of Mental Retardation and Developmental Disabilities (OMRDD)
Response to the Office of the State Comptroller's
Draft Audit Report No. 2005-S-49
Capital District Developmental Disabilities Services Office
Selected Financial Management Practices

Recommendation #3:

Encourage the use of the State's Purchasing Credit Card for all small dollar purchases.

Response:

Capital District DDSO's Business Office currently utilizes the NY State's Purchasing Credit Card. We have scheduled a DDSO wide release of procurement cards for September, 2006. Training will include instruction in appropriate types of credit card purchases so the DDSO can reduce small dollar purchases noted in this audit.

Recommendation #4:

Provide information on the MWBE program to each DDSO. Capital District should then comply with the MWBE program and its stated goals established by OMRDD.

Response:

A statewide training on the Minority and Women-Owned Business Enterprises (MWBE) program was provided to DDSOs and key Central Office staff in the Fall of 2004. It is OMRDD's intention to provide MWBE training on an annual basis. Although OMRDD was unable to provide training in 2005, statewide training is being planned for the Fall of 2006. The training will provide an overview of the MWBE program and OMRDD's annual goals for the MWBE program. The training is also expected to address MWBE vendor recruitment and changes in procurement guidelines for discretionary purchasing. OMRDD also plans to make the NYS Department of Economic Development's directory of MWBE participants available to all DDSOs.

OMRDD utilizes an agency wide annual goal for the MWBE program and while OMRDD encourages the DDSOs to make every effort to use MWBEs, there are no DDSO specific goals in place.