
**Thomas P. DiNapoli
COMPTROLLER**



Audit Objective..... 2

Audit Results - Summary..... 2

Background..... 4

**Audit Findings and
Recommendations..... 5**

Delivery of Required Services..... 5

Recommendations 7

Internal Controls..... 7

Recommendations 7

Contract Oversight 11

Recommendations 12

Audit Scope and Methodology..... 12

Authority 12

Reporting Requirements..... 12

Contributors to the Report 12

Appendix A - Auditee Response.. 14

**Appendix B - State Comptroller's
Comments..... 27**

**OFFICE OF THE
NEW YORK STATE COMPTROLLER**

**DIVISION OF STATE
GOVERNMENT ACCOUNTABILITY**

DEPARTMENT OF HEALTH

**ADMINISTRATION OF
GOVERNMENT FUNDS
AWARDED TO DOR
YESHORIM**

Report 2007-R-5

AUDIT OBJECTIVE

Our objective was to determine whether Dor Yeshorim (DY) provided services and expended funds as called for by State Contract (C022182), State Legislative Grant (M050427) and two New York City Council Grants (CT81620070028822 and CT81620060035607).

AUDIT RESULTS - SUMMARY

DY's objective is to minimize the occurrence of genetic disorders common to Jewish people. To accomplish this objective, DY arranges for students and other members of the Jewish community who are approaching the age of marriage to have samples of their blood taken and sent to a laboratory for analysis. To further its objective, DY obtained a State Legislative Grant for \$170,000, a State Contract for \$500,000 and two grants from the New York City Council totaling \$360,000. DY also obtains substantial private donations and collects user fees when lab tests are performed. According to its annual reports, DY is responsible for preventing thousands of young Jewish men and women at risk for having children with genetic diseases from marrying and having children together. As such, DY estimates it has saved millions of dollars that would have been expended for the care and treatment of children with genetic diseases. The New York State Department of Health (Department) was responsible for overseeing the State Contract and State Legislative Grant.

We conclude that DY provided the lab tests and expended government funds as called for by the State Contract and various grants. However, we could not determine that State Contract and grant monies only funded lab tests for New York State residents. Also, we identified significant weaknesses in DY's internal controls over financial records,

revenues, payroll and procurements. In exercising its oversight role, the Department must ensure that these weaknesses are corrected before any additional State funds are provided to DY.

The State Contract and various grants covered by our audit called for DY to perform 7429 lab tests. We found support that DY performed at least 8,444 lab tests over the period covered by its government funding (June 1, 2005 through March 31, 2007). In addition, the total cost of the lab tests (about \$930,000) approximated the total amount of funding under the State Contract and various grants (\$1,030,000) for use to support the genetic testing program. We made a disallowance of \$73,944 because we could not verify that certain payroll costs expended under the State Contract were actually incurred for contract purposes.

Neither the State Contract nor the various grants specified that screenings were only for New York State residents. However, in November 2006 the Department confirmed with DY that government funds were intended to only pay for lab tests for New York State residents. Nevertheless, DY had not arranged for any recordkeeping to establish the residency of screened individuals. As a result, there is no assurance that State and City dollars were spent only for the needs of New York State residents.

DY incurred a lab charge of \$110 per screening. However, DY did not determine allocable indirect costs to establish a total cost per screening. This is important because the New York City Council Grants provided that the total costs would be \$260, that user fees would cover up to \$150 and that the Grants would finance up to \$110. Without knowing the total cost per screening, it is unclear whether the \$110 City Council Grant reimbursement duplicates costs covered by

the user fees and, therefore, would be an overpayment. We brought this matter to the attention of responsible City officials at the Department of Health and Mental Hygiene for further review.

The State Contract was silent on how the cost of lab services or the user fees would be taken into account in obtaining funding under the Contract. The Contract simply provided stated amounts for a set number of lab tests. Therefore, it is possible that the State also was funding services that were already covered by user fees. Any future State contracts or grants should be clear about how the cost of lab tests and user fees would be taken into account in obtaining State reimbursements.

During our audit, we identified significant unexplained differences between expenditures reflected in DY's financial statements, its general ledger and its supporting documentation. For example, the financial statements showed \$1,259,614 more in costs for lab tests than was supported by available invoices. In addition, we observed that basic internal controls over financial operations were not in place. We found that there were no personnel files or time and attendance records in support of work performed by any individuals on DY's payroll. We observed a paycheck distribution to 12 DY staff and confirmed that they were the individuals named on the payroll, but the staff would not identify their duties and responsibilities to us and indicated that they had been instructed by DY's Executive Director not to talk to us.

We found a similar lack of controls over DY revenues as DY had not arranged for issuing receipts or otherwise establishing accountability over user fees collected for lab tests and forwarded to DY for deposit. Further, a significant number of DY's procurements were not supported by purchase orders, receiving reports, cashed checks, or

other records confirming that goods and services were satisfactorily provided. We noted that DY only occupied three floors in the building where it conducted business, but it paid \$85,000 to install an elevator traversing all five floors in the building and it paid \$19,500 to install wiring on floors not occupied by DY. Moreover, we learned that DY's Executive Director also headed the corporation that owns the building.

The many significant weaknesses we identified in DY's internal controls must be corrected before any additional government funding is provided to DY. Department officials advised us that their desk auditing of DY helped to identify problems in the areas of procurement of insurance products and related party loans which were referred to the New York State Attorney General. In addition, Department officials advised us that in November 2007 they issued a draft audit report of their findings to DY. Department officials also indicated that they have recently finalized their report and have already prepared a corrective action plan that DY must comply with before additional funding is provided.

We believe the Department needs to expand its present desk audit monitoring to include a field audit review and monitoring capability for DY and similar entities receiving State Contracts and grants.

Our report contains seven recommendations to help ensure that future New York State and City Contract and grant monies awarded to DY service only New York State, and, where applicable, New York City residents; and that DY's administrative and fiscal practices are improved significantly before any additional government funds are awarded. Department officials generally agree with our

recommendations and in response to our draft report state that they plan to implement them as appropriate.

DY officials assert that they have complied completely with contract and grant terms, but recognize the need to improve DY internal controls and recordkeeping.

This report, dated December 4, 2008, 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 Government Accountability
110 State Street, 11th Floor
Albany, NY 12236

BACKGROUND

The mission of the New York State Department of Health (Department) is to protect and promote the health of New Yorkers through prevention, science, and the assurance of quality health care delivery. To assist it in these endeavors, the Department awards contracts and grants to private contractors. One such contractor, Dor Yeshorim (DY), is a Brooklyn-based, not-for-profit organization offering genetic screening to members of the Jewish community. DY's objective is to minimize the occurrence of genetic disorders (e.g., Tay Sachs disease) common to the Jewish community by arranging for men and women approaching the age of marriage to have testing for a variety of genetic diseases.

According to its annual reports, DY is responsible for preventing thousands of young Jewish men and women, at risk for having children with genetic diseases, from marrying and having children together. As such, DY estimates it has saved millions of dollars that

would have been expended for the care and treatment of children with genetic diseases.

DY arranges for students and other members of the Jewish community to have blood samples taken at schools and designated locations throughout the United States, Canada, Europe, and Israel. Blood samples are taken, reportedly by certified phlebotomists (persons qualified to draw blood samples), whom DY hires as independent contractors. The blood samples are sent to a laboratory for analysis, and the test results are kept confidential. Screened individuals considering marriage may call DY to find out whether they are compatible.

For the period January 1, 2005 through March 31, 2007, DY recorded revenues totaling \$4,082,869. Over this period, DY received revenues from several government sources: a State Contract with the Department of Health (C022182) - \$500,000; a State Legislative Grant (M050427) - \$170,000; and two New York City Council Grants (CT81620070028822 and CT81620060035607) - a total of \$360,000. The remaining DY revenues (\$3,052,869) consist of user fees (\$150 required of each individual screened classified by DY as donations), as well as donations from other private sources. At the time of our audit, DY had billed and been reimbursed for all funds available under the State Contract and the State and New York City Grants.

DY's government funding sources required the following:

- State Contract C022182 (covering the period April 1, 2006 through March 31, 2007) specified funding for three projects: (1) premarital screening (for the genetic diseases DY has historically tested for); (2) expanded screening for genetic diseases not previously tested for; and (3) screening of new groups of individuals (to expand client base) that

had not been reached in the past. Project 1 initially provided for 2,409 lab tests (screenings) and the upgrade of DY's computer system. A subsequent contract modification reallocated line item funding resulting in 501 more screenings. The contract also included funding for DY's Project Director, an assistant, fringe benefits and program marketing materials.

- State Legislative Grant M050427 (covering the period June 1, 2005 through March 31, 2006) described funding for the same general areas called for in the State Contract. Funds were to be used for laboratory expenses, specimen collection, and other-than-personal services (OTPS) expenses. The objectives of this grant were to identify and test 1,245 adolescents who had not yet been tested; maintain a confidential database of individuals tested; respond to all appropriate calls from those seeking information and results; and prepare and distribute literature about Jewish genetic diseases and the DY screening program.
- The two New York City Council Grants (covering the periods July 1, 2005 through June 30, 2006 and July 1, 2006 through June 30, 2007) each called for the screening of 1,637 individuals who were age 17 and 18.

During our audit survey, we noted that the Department had initiated an audit of DY and had referred certain matters to the New York State Attorney General's Office (AG) as a result of its audit. To avoid duplication, our report does not address specific areas that we were told would be reported on by the Department or that were referred to the AG. These areas include rent payments to a DY-related entity, the procurement of certain

insurance products, and loans to related parties. However, our report does address one area that the Department expressed concern about - the residency of individuals screened by DY.

AUDIT FINDINGS AND RECOMMENDATIONS

We conclude that, based on available laboratory billings and specimen analyses, DY provided the lab testing services called for by the State contract and various grants we reviewed. We also conclude that, except for two unfilled contract-funded personnel items, DY expended these government funds for legitimate program purposes. However, during the course of our audit, we found serious deficiencies in DY's recordkeeping and accountability over revenues and expenditures. These weaknesses increase the risk that State funds could be at risk for loss. Since the Department is responsible for overseeing State contracts and grants to DY, it is important that the Department provide guidance to DY and monitor how DY corrects these weaknesses before any additional contracts or grants are awarded to DY.

Delivery of Required Services

Lab invoices and other records such as attestations from schools where blood samples were drawn, support that DY provided more than the number of screenings required by the State Contract and New York City Council Grants. The funding from the Contract and Grants required DY to perform 7,429 screenings (lab tests) during the audit period, and the lab invoices and other records indicated that DY provided 8,444 screenings during this period.

However, in November 2006, the Department and DY agreed that State Contract funds should only finance screenings for New York

State residents even though Contract language did not include this requirement. Despite this agreement, we found that DY could not support that the residency requirement was met because DY did not provide for the names and addresses of screened individuals to be included on any Program-related records. The Department needs to ensure that DY establish records that can be relied on to verify the New York State residency of screened individuals.

In addition, the City Council Grants stated that the cost of lab screenings would be \$260, that screened individuals would pay up to \$150 as a user fee and that the City Grants would finance up to \$110 of the cost. In fact, labs billed DY \$110 for each screening provided to an individual. However, DY did not document and allocate the amount of its indirect costs that needed to be added to the direct lab billings from the labs to establish the total cost of lab screenings. Without this information, DY could not readily establish whether the total cost of lab screenings was at, above or below \$260. Accordingly, it was not clear whether, or to what extent, the City Council Grants reimbursement of \$110 may have already been covered by the user fee and, therefore, may have been an overpayment under the terms of the City Council Grants.

We discussed this matter with New York City Department of Health and Mental Hygiene (NYCDOHMH) officials since this agency has oversight responsibility for the City Council Grants provided to DY. NYCDOHMH officials stated that since DY attested that the actual “total” cost of a lab test (considering ancillary costs such as DY overhead, etc.) was \$260, they have no basis to conclude that City funds are being used for anything other than to finance the \$110 test

cost agreed to by contract, or that these costs are also being paid for by other DY revenues. However, as previously discussed, DY provided no support that the total cost per test was \$260.

The State Contract did not limit funding to the actual cost of the screening and it did not make any consideration for the amount of user fees collected. Therefore, it is possible DY was obtaining State Contract funding above the cost it was incurring for lab services when the collection of user fees was taken into account. We recommend that any future Department contracts awarded to DY for this Program should be specific about the maximum cost of each screening and the amount that is reimbursable when user fees are considered.

DY officials propose using telephone numbers, or the location of testing, as proof of user residency. We note that neither of these proposals adequately documents user residency. A valid method would be to denote user names and addresses so that residency can be independently verified. DY officials also state that Annex A of their contracts with New York City clearly notes that the City’s payment of \$110 per screening is to supplement all other DY screening-related costs including salaries, and utilities, which when combined with the actual lab costs, make the total cost of a screening to be \$260.

(In response to our draft report, Department officials informed us that they plan to take user fees into account for any future contract awards to DY. They also agree that documenting New York State residency will be another vital component of any future contracts with DY.)

Recommendations

1. Before awarding any further State funds to DY for genetic screening, require DY management to establish records that can be relied on to verify the New York State residency of screened individuals.
2. Ensure that any future contract or grant awards to DY are specific about the maximum amount to be reimbursed for genetic screening considering the actual cost of screenings and amounts obtained as user fees.

Internal Controls

According to Appendix A of the State Contract, "The Contractor shall establish and maintain complete and accurate books, records, documents, accounts and other evidence directly pertinent to performance under the contract..." Compliance with such provisions is part of a good system of internal control and increases assurances that government funds are fully and accurately accounted for.

During our audit, we identified that DY had significant internal control weaknesses including discrepancies among various financial records, lack of accountability over revenue and unsupported payroll and procurement costs. These conditions do not provide an appropriate level of assurances that DY can properly control and safeguard assets including government funds.

Discrepancies in Financial Records

In accordance with sound accounting and recordkeeping controls, financial statement totals should agree with supporting documentation and corresponding totals in the general ledger. Significant discrepancies must be investigated and reconciled to ensure

the accuracy of financial statements and to determine whether funds have been misspent or lost.

For calendar years 2005 and 2006, DY's financial statements showed a total of \$2,155,894 spent for lab tests (screenings). However, the general ledger account for lab tests for those two years showed a total of \$1,869,640; a discrepancy of \$286,254 from the financial statements. Moreover, supporting invoices showed DY was charged \$869,280 for lab tests for these years; a discrepancy of \$1,259,614 from the financial statements.

We determined that part of the discrepancy between financial statement and general ledger totals was because DY paid \$286,254 to individuals and private entities as grants and apparently reflected this total in the financial statements as lab tests. However, there was no documentation supporting the specific purposes of the grants nor how they pertained to DY's genetic testing program.

DY explained that part of the \$1,259,614 discrepancy between the financial statement totals and supporting invoices for lab tests was because \$253,695 of lab tests reflected in the financial statements pertained to DY's reimbursement to Dor Yeshorim - Israel (a separate legal entity from DY) for lab services reportedly provided to residents of the United States who were abroad. In this instance no supporting invoices from the lab used by Dor Yeshorim - Israel were provided. We noted another \$351,302 of the discrepancy was attributable to funds paid to several other entities for unsupported lab tests. DY could not account for the remaining difference of \$654,617 between the financial statement total for lab tests and available supporting invoices.

Because of the significant unresolved discrepancies, we cannot attest to the accuracy of the amounts reflected in the financial statements as the cost for lab tests. Further, the presence of these unresolved discrepancies (as well as DY's significant internal control weakness outlined in the subsequent sections of this report) causes us to question the quality of the audit work performed by DY's Public Accounting (CPA) firm in connection with the firm's unqualified opinion on the DY financial statements for calendar years 2005 and 2006.

Under generally accepted auditing standards, the CPA firm should have assessed internal controls and performed substantive testing of transactions to render an opinion on the financial statements. If this had been adequately done, we believe the CPA firm would have noted the serious deficiencies we identified and caused the CPA firm to issue either an adverse or qualified opinion on the financial statements. We recommend that the Department require DY to obtain another CPA firm and we recommend that the Department refer DY's existing firm to the State Education Department which has responsibility for overseeing the practice of accountancy by New York State certified public accountants.

(Department officials indicate that they will refer the CPA firm to the State Education Department.)

Revenues

As previously noted, DY has substantial revenues resulting from fees paid by screened individuals. The receipt of such revenue (cash or checks) must be adequately controlled to ensure accountability and protection against losses. The essential controls include:

- Issuing a sequentially numbered receipt form to each person who remits a fee and keeping a copy for internal verification, and
- Requiring that revenue must be initially received and recorded by someone who does not have access to accounting records and who does not have responsibility to prepare bank deposits.

We found these controls were not in place over DY revenues. For example, the phlebotomists who draw blood for the screenings do not use cash receipt forms when they collect revenue on behalf of DY. Therefore, it is not possible to confirm that all revenues received by the phlebotomists were forwarded to DY. Furthermore, when revenue from the phlebotomists arrives at DY, it is first received by DY's Executive Director (or his designee) who also prepares the bank deposit slip. No list of cash received is prepared for subsequent comparison to bank deposits and there is no separation of duties between the functions of receiving cash and processing bank deposits.

DY's Executive Director acknowledged these control deficiencies and the need for improvement. He further explained that neither he nor his staff had accounting training or education, and noted that there are no written policies or procedures for guiding staff on how to properly account for revenues. The Executive Director told us that DY hired a new accountant in July 2006 to help correct deficiencies. However, the control weaknesses we identified continued after the new accountant was hired.

Payroll

For the period June 2005 through March 2007, DY spent \$559,551 on employee

salaries according to its general ledger. The number of employees on the monthly payroll during this period ranged from 11 to 21. The essential controls over payroll include:

- Maintaining personnel files to document each employee's start date, salary rate, job description, qualifications, assignment, and termination date, and
- Requiring time and attendance records to document actual time worked.

DY officials informed us that they there were neither personnel files nor time and attendance records to support any of their associated payroll costs. Consequently, DY lacked adequate assurances that its payroll costs were appropriate.

In the absence of any personnel files and time and attendance records, we attempted to attest to DY payroll costs by observing DY's paycheck distribution for the monthly payroll ended November 30, 2007, and by interviewing DY staff to establish their duties. The November 30, 2007 payroll listed 13 employees including the Executive Director (who was not present at the distribution). Of the 12 staff present at the paycheck distribution, eight provided a driver's license and four provided a United States passport as a means to verify that they were the person listed on the DY payroll. However, these individuals informed us that they were told by DY's Executive Director that they were not authorized to answer any questions from us pertaining to their DY employment duties. DY's counsel confirmed their statements.

Since we were not permitted to confirm the duties performed by DY employees, we cannot attest to the appropriateness of DY payroll costs reflected on its financial statements and recorded as an expense on its

tax returns. It should be noted that the State Contract only covered the cost of DY's Project Director and an Assistant to the Project Director. Since the State Contract reimbursed DY \$73,944 for these positions, and we could not confirm what duties either provided under the Contract - or that these positions were actually filled - we recommend that the Department recover the \$73,944 from DY.

(In response to our draft report, DY officials supplied us with W-2 forms and FICA deductions for the individuals reportedly filing these contract-funded positions. While this documentation confirms that payments were made to these individuals, it does not demonstrate what work these individuals actually performed pertaining to DY Program-related functions.)

Procurement

For the period January 1, 2005 through August 31, 2007, DY's general ledger recorded \$1,633,300 spent for the procurement of goods and services including consultants and capital construction. The essential controls over procurement include:

- Requiring signed purchase orders authorizing each procurement,
- Obtaining receiving reports or other written confirmations of the delivery of goods and services in accordance with purchase orders,
- Maintaining vendor invoices as a basis for payments to vendors, and
- Maintaining cancelled checks to show vendors were correctly paid.

According to its general ledger, DY issued 1,146 checks totaling \$1,282,663 for procurements other than lab tests made during

the period June 1, 2005 through March 31, 2007 (the period covered by the State Contract and State grant). DY provided us with three boxes of bank statements, vendor invoices and general ledger entries in support of its procurements. However, the boxes contained no purchase requests, confirmations of the proper delivery of goods and services or cancelled checks. For 407 of the above noted checks, totaling \$877,201, there were no supporting records.

As a result, we are not able to verify that DY procured goods and services only for authorized and proper purposes and that DY paid vendors only what they were entitled to be paid. Since the government contracts and grants obtained by DY were focused on screenings and were fairly limited and very general with respect to procurements, we did not conclude that any non personal service disallowance was necessary. However, based on our review of available records, we question the propriety of several of DY's procurements as follows:

- DY paid a construction company \$43,200 without obtaining invoices from the company. DY issued the company nine receipts covering this amount, but the receipts neither indicated where work was done nor adequately described the nature of the services performed.
- DY contracted for \$85,000 for the installation of an elevator traversing each of the five floors in the building in which DY operates. In addition, DY paid \$19,500 to install wiring on the top two floors of the building. However, DY only occupied the first three floors in the building. Consequently, we question why DY would pay the cost for elevator service throughout the building and why DY

would pay to install wiring on floors it does not occupy. Moreover, there is a conflict of interest associated with these transactions because DY's Executive Director also heads a separate corporation that owns the building and, therefore, benefited from these DY expenses.

- DY made procurements of \$7,110 for women's clothing, chiropractor visits, travel and phone bills that do not appear to have any relationship to DY's business purpose.

Although Department officials agree with our observations regarding DY's internal control deficiencies, as a result of their audit responsibility they do not believe they should work on site with DY to correct them. However, they agree to require the above-noted improvements by contract, to provide guidance for DY to implement the required improvements and to provide future comments on DY's compliance via enhanced oversight.

(DY's Executive Director acknowledges the procurement-related control deficiencies. In response to our draft report, he indicates that his position in the corporation that owns the building is not a conflict of interest and maintains that the entire building will eventually be used solely for DY purposes.)

Recommendations

3. Require DY to resolve the discrepancies that our audit identified between financial statement, general ledger and supporting documentation totals. Provide enhanced oversight to DY to avoid such discrepancies in the event that future contracts or grants are awarded.

4. Require DY to obtain a new CPA firm. Refer DY's existing CPA firm to the State Education Department for further review.
5. As a prerequisite for any future awards of State contracts or grants, require DY to correct its internal control weaknesses over revenue, payroll and procurement to address the findings cited in this report. If the services of the reported Project Director and Assistant cannot be confirmed, recoup the \$73,944 paid to DY, for these positions.

Contract Oversight

Department staff does not usually make site visits to perform audits of contractor/grantee records and operating practices. According to Department officials, their contract oversight practices generally include performing desk audits of financial statements, contractor billings and other required financial and program related documents and reports. If officials find a problem with information examined during the desk audit or if they have a question about an item for which the contractor is seeking reimbursement, they will ask for additional documentation.

Consistent with its contract oversight practices, a routine desk audit of DY's financial statements by Department audit staff identified a DY loan to a related party (the Executive Director). Department staff recognized this as inappropriate and requested DY to provide its general ledger and related records. The Department then expanded its desk audit to ascertain whether there were additional questionable loans or transactions for the period June 1, 2002 through March 31, 2006. The audit focused on the issue of residency of screened individuals and rental amounts DY was charging the State. The

Department referred certain questionable transactions (i.e., the procurement of certain insurance products and related party loans) to the New York State Attorney General.

Department audit staff informed us that in November 2007, they issued a draft report of their audit findings to DY. They also reported that they developed a corrective action plan for to DY comply with before any future state contracts or grants would be awarded to DY. The corrective action plan reportedly calls for a change in DY governance, the hiring of a new independent auditor, and the elimination of questionable financial practices identified through Department audit efforts.

We acknowledge these oversight efforts by the Department. However, based on our audit findings identified throughout this report, we believe that the Department needs to supplement its desk audit approach with a field audit capability for assessing program accomplishments, evaluating internal controls and providing guidance and support for necessary corrective actions on the part of contractors and grantees including DY. Recognizing that the Department has limited resources, we further recommend that the field audit capability be deployed based on the results of a formal risk analysis that establishes the priority ranking for audits of contractors/grantees. We also recommend that the Department conduct a follow up field audit of DY to address the progress toward implementation of recommendations contained in our report and in the Department's audit report.

In response to our discussion document, Department officials informed us that they agree with our recommendations to enhance their oversight of grantees. However, they must consider their limited resources and total workload when making those decisions.

Recommendations

6. Redesign contract and grant oversight policy to include field audit capability that is based on a formal risk analysis process for targeting scarce resources to priority contractors/grantees.
7. Perform a follow up field audit of DY to determine the status of implementation of recommendations contained in this as well as the Department's audit reports.

AUDIT SCOPE AND METHODOLOGY

We conducted our audit in accordance with generally accepted government auditing standards. We audited selected DY program and financial activities relating to State Contract C022182, State Legislative Grant M050427, and two New York City Council Grants (CT81620070028822 and CT81620060035607), including related Department oversight, for the period June 1, 2005 through November 30, 2007.

To achieve our objectives, we examined DY's financial statements and IRS Forms 990 for calendar years 2005 and 2006. We also examined DY's general ledger; and reviewed available supporting documentation for expenditures incurred during those years. We observed a payroll check distribution and assessed the methods used to document the revenues collected and the services provided. In addition, we contacted staff of the New York State Attorney General and met with the Department's internal audit unit to determine what aspect of DY operations they were reviewing and to avoid duplication of effort and reporting.

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

AUTHORITY

This 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 Department and DY officials for their review and comment. Their comments have been considered in preparing this final report and are included in their entirety as Appendix A. State Comptroller's comments to the auditee's response are included in Appendix B.

Within 90 days after final release of this report, we request that the Commissioner of the Department of Health 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, Frank Patone, Stu Dolgon,

Barry Mordowitz, Peter Blanchett, John Ames, Anthony Carlo, Jay Gwak, and Paul Bachman.

APPENDIX A - AUDITEE RESPONSE



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

Richard F. Daines, M.D.
Commissioner

Wendy E. Saunders
Executive Deputy Commissioner

October 24, 2008

Frank Patone, CPA
Audit Director
Office of the State Comptroller
Division of State Government Accountability
123 William Street, 21st Floor
New York, NY 10038

Dear Mr. Patone:

Enclosed are the Department of Health's comments on the Office of the State Comptroller's draft audit report 2007-R-5 on the "Administration of Government Funds Awarded to Dor Yeshorim."

Thank you for the opportunity to comment.

Sincerely,

Wendy E. Saunders
Executive Deputy Commissioner

Enclosure

cc: Stephen Abbott
Ellen Anderson
Thomas Blake
Barbara Devore
Randall Griffin
Sandra Pettinato
Robert W. Reed

**Department of Health
Comments on the
Office of the State Comptroller's
Draft Audit Report 2007-R-5 on the
"Administration of Government Funds
Awarded to Dor Yeshorim"**

The following are the Department of Health's (Department) comments in response to the Office of the State Comptroller's (OSC) draft audit report 2007-R-5 on the "Administration of Government Funds Awarded to Dor Yeshorim."

Recommendation #1:

Before awarding any further State funds to Dor Yeshorim (DY) for genetic screening, require DY management to establish records that can be relied on to verify the New York State residency of screened individuals.

Response #1:

The Department will ensure that any future agreements require DY to establish and maintain records that can be relied upon to verify that individuals screened are New York State residents or plan to become New York State residents when they marry.

Recommendation #2:

Ensure that any future contract or grant awards to DY are specific about the maximum amount to be reimbursed for genetic screening considering the actual cost of screenings and amounts obtained as user fees.

Response #2:

The Department will ensure that any future contracts or grants awarded to DY are specific about the maximum amount to be reimbursed for genetic screening, considering the actual cost of the screenings and applicable amounts obtained from user fees.

Recommendation #3:

Require DY to resolve the discrepancies that our audit identified between financial statement, general ledger and supporting documentation totals. Provide enhanced oversight to DY to avoid such discrepancies in the event that future contracts or grants are awarded.

Response #3:

OSC concluded that DY provided the laboratory tests and expended government funds as called for by the Department contract and legislative grant it audited, with the possible exception of \$73,944 discussed in Response #5 below. In addition, the Department does not currently maintain an active contract with DY. Absent a continuing contractual agreement with DY, there is not a basis for the Department to require DY to resolve the discrepancies identified by the OSC. These are governance issues, documented in the OSC workpapers, that need to be directed to and addressed by DY's Board of Directors. If a new contract is entered into with DY, these matters will be addressed.

*
Comment
1

Recommendation #4:

Require DY to obtain a new CPA firm. Refer DY's existing CPA firm to the State Education Department for further review.

Response #4:

The Department will make the referral to the Education Department. However, it's relevant to note that DY engaged the firm in 2007, as part of the governance changes implemented to address Department concerns. OSC's audit focuses on the work of the present firm, while the Department's audit focused on the work of the previous firm. Since the Department is not privy to the detailed information contained in the OSC workpapers supporting the recommendation, OSC should consider making the referral directly or provide the supporting workpapers to the Department for its use.

*
Comment
2

Recommendation #5:

As a prerequisite for any future awards of State contracts or grants, require DY to correct its internal control weaknesses over revenue, payroll and procurement to address the findings cited in this report. If the services of the reported Project Director and Assistant cannot be confirmed, recoup the \$80,000 budgeted for, and paid to DY, for these positions.

Response #5:

As a condition of awarding any future State contracts or grants to DY, the Department will require DY to correct the internal control weaknesses cited by the OSC. Additionally, the Department is in receipt of the attached unsigned copy of DY's letter of September 29, 2008 to OSC addressing the draft audit report, and particularly the \$80,000 in payroll expenditures cited above. For clarification, the contract budget originally provided for \$80,000 in salary costs plus an additional \$10,000 in fringe benefits, for a total of \$90,000 in personal services and related costs. The approved budget modification reduced this \$90,000 to \$73,944, equaling the total amount of personal services and fringe benefit expenditures reimbursed by the Department. While

*See State Comptroller's Comments, page 27

the September 29th correspondence appears to validate that personal services expenditures were incurred, the Department will follow-up to ascertain that the expenditures reimbursed are for work related to the Department contract and will initiate the recoupment of any portion not supported as such.

DY's September 29th correspondence additionally comments on the OSC findings relative to installation of an elevator in the building DY occupies. OSC notes that DY's Executive Director also headed the corporation that owns the building, and that DY only occupied three floors in the building but paid \$85,000 to install an elevator traversing all five floors, as well as an additional \$19,500 to install wiring on floors not occupied by DY. To be clear, the Department did not reimburse DY for any of these costs. These governance issues should be directed to, and addressed by, DY's Board of Directors.

* Comment 1

Recommendation #6:

Redesign contract and grant oversight policy to include field audit capability that is based on a formal risk analysis process for targeting scarce resources to priority contractors/grantees.

Response #6:

The Department will perform an assessment to determine the feasibility of implementing this recommendation given overall resource constraints.

Recommendation #7:

Perform a follow up field audit of DY to determine the status of implementation of recommendations contained in this as well as the Department's audit reports.

Response #7:

The Department does not agree that a field audit is necessary at this time, particularly since it does not currently maintain an active contract with DY. However, as a condition of awarding any future Department contracts or grants, DY will be required to correct the internal control deficiencies cited in the Department's and the OSC's audit reports. This review will include a follow-up audit.

*See State Comptroller's Comments, page 27

DOR
YESHORIM

**COMMITTEE FOR PREVENTION
OF JEWISH GENETIC DISEASES**

תשס"ח

September 29, 2008

Mr. Robert W. Reed
Deputy Commission for Administration
New York State Department of Health
Corning Tower, 14th Floor
Empire State Plaza
Albany, New York 12237

RECEIVED

SEP 30 2008

Deputy Commissioner
For Administration

Re: Dor Yeshorim

Dear Mr. Reed,

Enclosed please find our response to the letter dated September 12th issued by the office of the State Comptroller.

Should you have any questions, please call.

Sincerely,

Rabbi Josef Ekstein

Enclosure

MAIN OFFICE: 429 Wythe Avenue, Brooklyn, NY 11211 • Main Line: 718-384-2332 • Hotline: 718-384-6060 • Fax: 718-384-2815
ISRAEL OFFICE: Rechov Strauss 21, P.O. Box 50458, Jerusalem, Israel • 02-537-2111 • Fax: 02-537-1614 • Bnei Brak: 03-579-6170

**DOR
YESHORIM**

**COMMITTEE FOR PREVENTION
OF JEWISH GENETIC DISEASES**

September 29, 2008

Mr. Frank Patone, CPA
Audit Director
Office of the State Comptroller
Division of State Government Accountability
123 William Street, 21st Floor
New York, NY 10038

Re: Response to Draft Audit Report
2007-R-5
Administration of Government Funds
Awarded to Dor Yeshorim

Dear Mr. Patone:

We have received your letter dated September 12th sent to Richard Daines, M.D., Commission of the Department of Health regarding the above-referenced draft audit report.

We are disappointed that many of our comments and issues presented in our response dated June 24, 2008, were not addressed in this most recent draft report. However, in an effort to expedite this process and in the interest of time we refer you back to our June 24th letter and request that you consider our responses and positions as stated therein. We will not repeat those comments in this response.

At this juncture, we would like to comment on the section of your report entitled payroll. We take exception to your recommendation that the Department recover \$80,000 which represents the Project Director and her assistant. Your report states the following:

In the absence of any personnel files and time and attendance records, we attempted to attest to DY payroll costs by observing DY's paycheck distribution for the monthly payroll ended November 30, 2007, and by interviewing DY staff to establish their duties. The November 30, 2007 payroll listed 13 employees including the Executive Director (who was not present at the distribution). Of the 12 staff present at the paycheck distribution, eight provided a driver's license and four provided a United States passport as a means to verify that they were the person listed on the DY payroll. However, these individuals informed us that they were not authorized to answer any questions from us pertaining to their DY employment duties. DY's counsel confirmed their statements.

Since we were not permitted to confirm the duties performed by DY employees, we cannot attest to the appropriateness of DY payroll costs reflected on its financial statements and recorded as an expense on its tax returns. It should be noted that the State Contract only covered the cost of DY's Project Director and an Assistant to the Project Director. Since the State Contract reimbursed DY

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Mr. Frank Patone, CPA
 September 29, 2008
 Page 2

\$80,000 for these positions, and we could not confirm what duties either provided under the Contract — or that these positions were actually filled — recommend that the Department recover the \$80,000 from D.Y.

First and foremost, as discussed in our submission dated June 24th, it was our understanding at the time of the payoff that the purpose was to identify the existence of the employees which in fact was accomplished. In addition, with respect to the grant, only the Project Director and her assistant were reimbursed. Their responsibilities were clearly identified in the workplan submitted to the Department of Health. Their remuneration as submitted in the vouchers are presented below:

Grant Period April 2006–March 2007

Voucher #1
 Project Director

<u>Applicable Period</u>	<u>Salary</u>	<u>FICA</u>
April 2006	\$ 5,000	\$ 382
May 2006	5,000	382
June 2006	5,000	382
	<u>\$ 15,000</u>	<u>\$ 1,146</u>

Voucher #2 — not applicable.

Voucher #3
 Project Director

<u>Applicable Period</u>	<u>Salary</u>	<u>FICA</u>
July 2006	\$ 5,000	\$ 382
August 2006	5,000	382
September 2006	5,833	446
October 2006	5,416	414
November 2006	5,416	414
December 2006	5,416	414
	<u>\$ 32,081</u>	<u>\$ 2,452</u>

COMMITTEE FOR PREVENTION
OF JEWISH GENETIC DISEASES

Mr. Frank Patone, CPA
 September 29, 2008
 Page 3

Voucher #3

Assistant Director

<u>Applicable Period</u>	<u>Salary</u>	<u>FICA</u>
August 2006	\$ 400	\$ 31
September 2006	1,272	97
October 2006	1,516	116
November 2006	1,516	116
December 2006	1,516	116
	<u>\$ 6,220</u>	<u>\$ 476</u>

Voucher #4

Project Director

<u>Applicable Period</u>	<u>Salary</u>	<u>FICA</u>
January 2007	\$ 5,416	\$ 414
February 2007	5,416	414
	<u>\$ 10,832</u>	<u>\$ 828</u>

Assistant Director

<u>Applicable Period</u>	<u>Salary</u>	<u>FICA</u>
January 2007	\$ 1,516	\$ 116
February 2007	1,516	116
March 2007	1,516	116
	<u>\$ 4,548</u>	<u>\$ 348</u>

Based on the above detail, the amount of salaries and related FICA included in the grants is \$73,931 and not \$80,000.

In addition, to validate the level of expense, we have attached the Project Director's and the assistant's W-2s for 2006 and 2007 (Attachment D). The W-2s are on a calendar basis. Presented below is a reconciliation thereof:

Project Director	
2006 W-2	\$ 62,083
Grant amount	
4/2006-12/2006	47,082 (as depicted on vouchers 1 and 2)
Difference	<u>\$ 15,000</u>

(The difference corresponds to January-March 2006 salary, prior to the grant period.)

COMMITTEE FOR PREVENTION
OF JEWISH GENETIC DISEASES

* Comment 3

*See State Comptroller's Comments, page 27

1/8
2

Mr. Frank Patone, CPA
September 29, 2008
Page 4

2007 W-2	\$	10,833	
Grant amount			
Jan-Feb 2007		<u>10,833</u>	(as depicted on Voucher 4)
Difference		<u>-0-</u>	

(The project director was no longer employed subsequent to February 2007.)

Assistant Project Director			
2006 W-2	\$	6,220	
Grant amount			
Aug-Dec 2006		<u>6,220</u>	(as depicted on Voucher #3)
Difference		<u>-0-</u>	

(This position began August 2006)

2007 W-2	\$	18,200	
Grant amount			
Jan-March 2007		<u>4,548</u>	(as depicted on Voucher #4)
Difference	\$	<u>13,652</u>	

(The difference relates to salary subsequent to grant period at \$1,516 per month.)

This data supports the salary reimbursement included in our grant, and, therefore, we request that your recommendation to recover this reimbursement be rescinded and our grant amount remain intact.

One final comment: In the latest report we were criticized for installing an elevator, that goes up to the fifth floor even though we currently occupy only the first, second and third floors. It would have been shortsighted and not prudent to limit the elevator to the third floor and at a later time when the walls are closed up, expand the elevator services up to the fifth floor. It is our intention to use the fourth and fifth floors and it was a sound business and practical decision to build up at the current time and achieve significant cost savings.

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Comment
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*
Comment
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Sincerely,

Rabbi Josef Eckstein

COMMITTEE FOR PREVENTION
OF JEWISH GENETIC DISEASES

*See State Comptroller's Comments, page 27

Redacted by NYSDOH

ATTACHMENT 1

a Control number F1 22222		For Official Use Only OMB No. 1545-0049	
b Employer identification number [REDACTED]		1 Wages, tips, other compensation 62083.35	2 Federal income tax withheld 7383.64
c Employer's name, address, and ZIP code DOR YESHORM INC. 429 WYTHE AVENUE BROOKLYN NY 11211		3 Social security wages 62083.35	4 Social security tax withheld 3849.16
		5 Medicare wages and tips 62083.35	6 Medicare tax withheld 900.23
		7 Social security tips	8 Allocated tips
d Employer's social security number [REDACTED]		9 Advance EIC payment	10 Dependent care benefits
e Employee's first name and initial [REDACTED]	Last name [REDACTED]	11 Nonqualified plans	12a See Instructions for box 12
		11a Disability pay [REDACTED]	12b
		11b Sick pay [REDACTED]	12c
		11c Other [REDACTED]	12d
f Employee's address and ZIP code NY [REDACTED]		15 State wages, tips, etc. 62083.35	17 State income tax 3343.35
		18 Local wages, tips, etc. 62083.35	19 Local income tax 1968.25
		20 Locality name NYC	

Form **W-2** Wage & Tax Statement
COPY D For Employer.

2006
0000/1199

Department of the Treasury—Internal Revenue Service
For Privacy Act and Paperwork Reduction Act Notice, see separate instructions.

COMMITTEE FOR PREVENTION
OF JEWISH GENETIC DISEASES

Redacted by NYSDOH

ATTACHMENT 2

a Control number 1/6 22222		Void	For Official Use Only > OMB No. 1545-0048		
b Employer identification number [REDACTED]			1 Wages, tips, other compensation 6222.23	2 Federal income tax withheld 636.23	
c Employer's name, address, and ZIP code DOR YERSHORIM INC. 429 WYTHE AVENUE BROOKLYN NY 11211			3 Social security wages 6222.23	4 Social security tax withheld 385.77	
			5 Medicare wages and tips 6222.23	6 Medicare tax withheld 90.24	
d Employer's social security number [REDACTED]			7 Social security type	8 Allocation tips	
e Employee's first name and initial [REDACTED]			9 Advance EIC payment	10 Dependent care benefits	
f Employee's last name [REDACTED]			11 Nonqualified plans	12a Soc ins instructions for box 12	
g Employee's address and ZIP code [REDACTED]			13 Disability benefits	12b	
			14 Other	12c	
			12d		
15 State NY	16 State wages, tips, etc. 6222.23	17 State income tax 144.42	18 Local wages, tips, etc. 6222.23	19 Local income tax 95.91	20 Locality name NYC

Form W-2 Wage & Tax Statement
copy 2 For Employer.

2006
00001199

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COMMITTEE FOR PREVENTION
OF JEWISH GENETIC DISEASES

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ATTACHMENT 3

22222 Void <input type="checkbox"/>		Employee's social security number		For Official Use Only OMB No. 1545-0048	
b Employer identification number		1 Wages, tips, other compensation 10833.34		2 Federal income tax withheld 1297.00	
c Employer's name, address, and ZIP code DOR YESHQRLM INC. 429 WYTHE AVENUE BROOKLYN NY 11211		3 Social security wages 10833.34		4 Social security tax withheld 671.65	
		5 Medicare wages and tips 10833.34		6 Medicare tax withheld 157.10	
		7 Social security tips		8 Allocated tips	
d Control number F1		9 Advance EIC payment		10 Dependent care benefits	
e Employee's first name and initial		Last name		11 Nonqualified plans	
f Employee's address and ZIP code		12a Instructions for box 12		12b	
13 State		14 Other		12c	
15 State		16 State wages, tips, etc. 10833.34		17 State income tax 590.52	
18 State		19 Local wages, tips, etc. 10833.34		20 Local income tax 346.94	
21 Locality name NYC					

Form **W-2** Wage & Tax Statement
copy 1 For Employer.

2007
00001199

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COMMITTEE FOR PREVENTION
OF JEWISH GENETIC DISEASES

APPENDIX B - STATE COMPTROLLER COMMENTS ON AUDITEE RESPONSE

1. We acknowledge that these are DY governance issues, rather than Department of Health matters, unless a new contract is entered into with DY.
 2. We provided supporting workpapers to the Department.
 3. We have revised our report to reflect a total of \$73,931.
 4. We acknowledge payroll costs were incurred, but note that the actual work performance of the individuals in question
- was not supported in DY files. We further note that the Department of Health has agreed to follow up on this expense to ascertain that work was related to the contract. The Department indicates that it will initiate recoupment of any portion not supported.
5. The DY response presents information not provided during the audit. In addition, as our report points out, the DY Executive Director heads a corporation that owns the building where these improvements are being made.