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STATE OF NEW YORK
OFFICE OF THE STATE COMPTROLLER

June 3, 2016

Eileen McLoughlin
Vice Chancellor for Finance and Chief Financial Officer
SUNY System Administration
State University Plaza
Albany, NY 12246

Re: Final Report 2016-BSE4-02

Dear Ms. McLoughlin:

As part of our daily payment audit, we examined¹ 12 vouchers totaling \$29,288 from the State University of New York Downstate Medical Center (Downstate) to Collecto, Inc. for debt collection services under contract TQ00030, which was not subject to approval by the Comptroller's Office. Under the \$2.5 million contract, Downstate pays Collecto various commission rates based on the amount collected by account type and size. The objective of our examination was to determine whether the payments were appropriate and properly supported.

Of the \$29,288 we examined, we found overpayments of \$14,355 and additional potential overpayments of \$2,664. The remaining \$12,269 was appropriate and properly supported.

We found Downstate staff approved four vouchers that included overpayments totaling \$14,355 for services previously billed on prior invoices. Each invoice showed the full amount due including unpaid balances, and Downstate staff approved vouchers for all four invoices at once. Staff did not recognize that invoice amounts included past due amounts already billed on prior invoices. After we returned these vouchers, Downstate officials instructed Collecto not to include amounts billed on prior invoices in the invoice amount due on future invoices. Officials also instructed staff not to pay prior balances unless appropriate.

We also found Downstate staff approved four vouchers for collection of accounts totaling \$10,740 that included potential overpayments of \$2,664. Each account met the definitions for two different

¹ We performed our examination in accordance with the State Comptroller's authority set forth in Article V, Section 1 of the State Constitution, as well as Article II, Section 8, and Article VII, Section 111 of the State Finance Law.

account types, each with their own commission rate. Downstate officials did not ensure the contract included clear language to address:

- 1) the threshold that classifies an account as a small balance type. Specifically, the contract defines small-balance accounts as those valued under \$2,000 in one part of the contract and under \$2,500 in another part of the contract.
- 2) when an account should be classified as a small-balance account (e.g., at the time the account is turned over for collection or at the time the unpaid balance is depleted to below the small-balance threshold).
- 3) the commission rate Collecto should charge for small-balance accounts. The contract allows Collecto to charge from 10 to 20 percent commission rate for collections on small-balance accounts. This is the only account type in the contract with a subjective, variable commission rate.
- 4) the commission rate Collecto should charge when an account meets the definition of more than one type. For example, Downstate officials do not know what commission rate to approve for collection on an “inpatient worker’s compensation” account type valued at \$1,000, because the commission rate on this account type is 7 percent and the commission rate for a small-balance account can be as high as 20 percent.

We shared a draft report with SUNY System Administration officials and considered their comments (Attachment A) in preparing this final report. SUNY officials agreed with our recommendations and stated they are implementing desk procedures to ensure staff do not approve vouchers with duplicate billings. In addition, SUNY Downstate departments are working with their Counsel’s Office and Collecto to review and amend the contract as necessary. SUNY Downstate will also ensure that future payments are in accordance with any clarified or amended terms.

Recommendations

- 1) *Continue to ensure staff do not approve vouchers with duplicate billings for amounts already billed on prior invoices.*
- 2) *Continue to work with counsel’s office to clarify ambiguous contract terms and amend the contract accordingly.*
- 3) *Ensure future payments comply with the clarified/amended contract terms.*

We thank the management and staff of the State University of New York Chancellor's Office and Downstate Medical Center for the courtesies and cooperation extended to our auditors. Since your response to the draft report is in agreement with this report, there is no need for a further response unless you feel otherwise. If you choose to provide a response, we would appreciate it by July 1, 2016.

Sincerely,

Bernard J. McHugh
Director of State Expenditures

Enc: Attachment A

cc: John Williams, President
Michael Abbott, University Auditor
Cheryl Kilkenny, Director of Internal Audit



Office of the
Chief Financial Officer

State University Plaza
Albany, New York 12246

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May 26, 2016

Mr. Bernard J. McHugh
Director of State Expenditures
Office of the State Comptroller
110 State Street
Albany, New York 12236

Dear Mr. McHugh:

Thank you for the opportunity to respond to the Office of the State Comptroller's (OSC) Draft Report 2016-BSE4-02, Downstate Medical Center Payments to Collecto, Inc. for debt collection services under contract TQ00030.

The report identified a number of overpayments related to the contract.

Downstate continues to review its procedures, assess controls, and make improvements to its expenditure processes. This also includes, but is not limited to training, improved interdepartmental communication, and improved oversight and management.

Downstate's responses to the recommendations are as follows:

1. *Continue to ensure staff do not approve vouchers with duplicate billings for amounts already billed on prior invoices.*

Agree: Controls are being employed in the Accounts Payable Department that includes implementing desk procedures to ensure the staff does not approve vouchers with duplicate billings for amounts already billed. That coupled with the support of our new Executive Director and Assistant Director of Accounts Payable will help ensure compliance.

2. *Continue to work with counsel's office to clarify ambiguous contract terms and amend the contract accordingly.*

Agree: The Accounts Payable and Contracts departments will continue to work with the Revenue Cycle Department, Counsel's Office and Collecto, Inc. to review and amend the contract accordingly, as necessary.

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3. *Ensure future payments comply with the clarified/amended contract terms.*

Agree: The Accounts Payable Department will ensure compliance in accordance with any clarified or amended terms, as needed.

Thank you for the opportunity to respond to the draft report.

Sincerely,



Eileen McLoughlin
Senior Vice Chancellor for Finance and
Chief Financial Officer

Copy: President Williams/Downstate
Ms. Poncet/Downstate
Mr. Abbott
Mr. Hippchen
Ms. Labate