RESEARCH FOUNDATION FOR MENTAL HYGIENE, INC.
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Robert E. Burke, CPA
Managing Director

October 16, 2006

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

Dear Mr. Challice:

The Research Foundation for Mental Hygiene, Inc. (Foundation) has reviewed the final Office of the State Comptroller (OSC) audit report entitled, Internal Controls over Revenue and Procurement (2005-S-7). Our comments on the findings and recommendations contained in the final report, along with the final report, are enclosed.

The Foundation appreciates the OSC's efforts to recommend improvements. We are extremely pleased with your conclusions that the Foundation's "Board is fulfilling its legal and fiduciary obligations, and the Foundation's internal controls over revenue and procurement operations are functioning as intended".

This response is submitted in accordance with Section 170 of the Executive Law.

Thank you for the opportunity to respond to the report. Should you have any questions or require additional information, please feel free to call me.

Sincerely,

Robert E. Burke
Managing Director

cc: Governor – George E. Pataki
Comptroller – Alan G. Hevesi
Lieutenant Governor – Mary Donohue
Senate Majority Leader – Joseph L. Bruno
Senate Minority Leader – David A. Paterson
Assembly Speaker – Sheldon Silver
Assembly Majority Leader – Paul A. Tokasz
Assembly Minority Leader – James N. Tedisco
Chair, Assembly Ways and Means Committee – Herman D. Farrell, Jr.
Ranking Minority Member, Senate Finance Committee – Neil D. Breslin
Chair, Senate Finance Committee – Owen H. Johnson

RFMH
Research Foundation for Mental Hygiene, Inc.

Research Foundation for Mental Hygiene, Inc.
Response to Office of the State Comptroller
Final Audit Report 2005-S-7
Entitled, Internal Controls over Revenue and Procurement

Overall Research Foundation for Mental Hygiene, Inc. Comments:

The Research Foundation for Mental Hygiene, Inc. (Foundation) has reviewed the final Office of the State Comptroller (OSC) audit report entitled, Internal Controls over Revenue and Procurement (2005-S-7). The Foundation appreciates the OSC's efforts to recommend improvements. We have set forth our best efforts to implement the changes recommended in the report and are committed to following through until the recommendations are fully adopted to improve and strengthen our already well-functioning system.

Foundation Responses to OSC Recommendations:

OSC Recommendations:

1. The Foundation's Board should revise its By-Laws to improve the number of members who are independent and to provide for a code of ethics.
2. The Foundation's audit committee members should not be the same members serving on the finance committee.
3. The Foundation should improve attendance at quarterly Board meetings.

Foundation Responses:

1. In October 2006 the Board adopted a resolution to modify the By-Laws and increase the number of at large directors from three to five and require all Category five directors to be non-affiliated. This will increase the total number of directors to twenty-three and increase the proportion of non-affiliated directors.

   The Board also adopted a resolution modifying the By-Laws to include a code of conduct and ethics.

2. In October 2006 the Board adopted a resolution modifying the By-Laws to incorporate language that will prohibit Audit Committee members from being members of the Finance Committee and require that a majority of the Committee be non-affiliated.

3. In October 2006 the Board agreed that additional measures will be utilized to improve attendance. Such as, reminding directors who are unable to attend in person to participate via video or teleconference, make video conferencing available for every Board meeting, schedule meetings one year in advance to minimize scheduling conflicts, monitor director attendance and consider asking directors who are regularly unable to attend to resign from the Board.

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OSC Recommendations:

4. The Foundation's administrative office at the Institute for Basic Research should ensure compliance with procedures for verifying whether purchases for goods or services are authorized and meet the grant's guidelines.

Foundation Responses:

4. The Institute for Basic Research has implemented the signature authorization procedures that are used at other Foundation locations.

OSC Recommendations:

5. The Foundation should conduct independent physical inventories of equipment and durable supply inventories.
6. Foundation Investigators should notify the Foundation's administrative offices at the institutes when they move, lend or transfer equipment.

Foundation Responses:

5. & 6. We have modified our existing procedures requiring that the November 2006 physical inventory of equipment and all inventories of equipment thereafter, have an independent confirmation of the asset(s) on hand, rather than the person responsible for asset custody. We will also continue to reinforce, to all persons in possession of Foundation equipment that, in order to comply with Foundation policy, they must notify the inventory department when equipment changes location.

OSC Recommendations:

7. Foundation Management should develop and implement policies and procedures for revenue and procurement operations detailed in our report, including the issuance and use of corporate credit cards.

Foundation Responses:

7. In March 2004, the Foundation completed an initiative to update the Corporate Policy Manual. We reviewed the historical purpose, related goals and where appropriate modified the content of general policies such as the Rules of Conduct, Conflict of Interest, Non-Discrimination, Execution of Legal Documents, Bank Account Establishment, Insurance, Retention of Legal Counsel and the Use of Foundation Computers and Equipment. This Policy review also included the parallel review and modification of our general policies for Accounting, Grant Administration, Investments, Purchasing and Human Resource Management.

Finally, we have embarked on a significant project at the Foundation Central Office with the strategic goal of documenting our existing and new procedures, for all primary functional and technical assignments that are routinely performed by the staff at the Central Office. Including, but not limited to the revenue and procurement operations noted above in recommendation number seven.

We are pleased to report that there has been progress as noted through the recently documented procedures for managing funds, such as the Federal Letter of Credits, Federal Draw Down and payroll withholding tax processing and related payments.