

*A REPORT BY THE NEW YORK STATE  
OFFICE OF THE STATE COMPTROLLER*

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**Alan G. Hevesi  
COMPTROLLER**



**DEPARTMENT OF HEALTH  
HEALTH RESEARCH, INCORPORATED  
DISBURSEMENTS OF DISCRETIONARY  
FUNDS**

**2002-S-14**

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**DIVISION OF STATE SERVICES**

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**Alan G. Hevesi**  
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**Report 2002-S-14**

Antonia C. Novello M.D., M.P.H., Dr. P.H.  
Commissioner  
Department of Health  
Corning Tower  
Empire State Plaza  
Albany, NY 12237

Dear Dr. Novello:

The following is our report on the administration of discretionary funds disbursements by Health Research, Incorporated.

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. We list major contributors to this report in Appendix A.

*Office of the State Comptroller*  
*Division of State Services*

April 29, 2003

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## **EXECUTIVE SUMMARY**

### **DEPARTMENT OF HEALTH – HEALTH RESEARCH, INCORPORATED**

### **DISBURSEMENTS OF DISCRETIONARY FUNDS**

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#### **SCOPE OF AUDIT**

**H**ealth Research, Incorporated (HRI) is a not-for-profit corporation established by administrative action of the Commissioner of the Department of Health (Department) to administer federal, State, and private funding in order to support, supplement, and extend the research functions and programs of the Department. HRI has two main operating divisions, one located in the Capital District (Albany Division) and one located in Buffalo (Buffalo Division). The Albany Division serves major Department programs, including those at the Wadsworth Center. The Buffalo Division serves the research programs of the Roswell Park Cancer Institute (Roswell Park). The operating Divisions provide financial assistance, through discretionary funds, to these programs and their employees to enhance their research efforts. Each operating Division has its own purchasing, payroll, and accounting staff to administer and authorize discretionary disbursements. The Corporate Division, located in the Capital District, is responsible for the overall administration of the Albany and Buffalo Divisions. HRI generates discretionary revenues from three sources: interest income from investments, dividend income from investments, and technology transfer and contract fees. For the two fiscal years ended March 31, 2002, disbursements of discretionary funds totaled \$14.5 million.

Our audit addressed the following question relating to the administration of discretionary funds disbursements by HRI for the two fiscal years ended March 31, 2002:

- Does HRI have adequate controls over disbursements of discretionary funds?

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#### **AUDIT OBSERVATIONS AND CONCLUSIONS**

**W**e found that HRI does not have written policies and procedures to control the disbursement of some categories of discretionary funds. Where HRI had policies and procedures, we found that HRI sometimes did not enforce them. As a result, HRI lacked adequate assurance that disbursements of discretionary

funds were reasonable in terms of their dollar amount, were properly supported, and were consistent with HRI's mission. Our findings indicate the need for the Corporate Division to increase its management oversight of disbursement practices for discretionary funds at the two operating Divisions, including developing and enforcing policies and procedures.

HRI officials stated they have recently increased their efforts to recruit and hire top research scientists at Roswell Park. In fiscal years 2001 and 2002, HRI reportedly spent about \$2.1 million of discretionary funds on a variety of recruiting related costs including renovating and repairing lab space and equipment to accommodate new recruits, reimbursing employees and potential recruits for travel expenses, and reimbursing new recruits for relocation expenses. However, HRI managers did not have policies and procedures to help them spend certain types of discretionary recruiting funds as efficiently as possible. For example, HRI did not have adequate controls to determine that contractor billings for renovations and repairs were accurate and that contractors completed the work in accordance with requirements. In addition, HRI management has not established specific meal allowances that employees must comply with when they serve in a recruitment, institutional promotion, or hospitality role. As a result, we found wide ranges in the amounts paid for meals. Although policies and procedures were established for the reimbursement of relocation expenses, HRI did not always enforce them. (See pp. 6-10)

HRI policy requires that vouchers submitted for payment be supported with adequate documentation that attests to the accuracy and legitimacy of the claimed expenses. We found that HRI approved numerous disbursements relating to meal reimbursements, consulting fees, and other purchases that were not properly supported. (See pp. 10-12)

According to HRI management, discretionary funds should be spent in pursuit of HRI's mission. At the Buffalo Division, we found several disbursements that did not appear to be directly related to HRI's mission. For example, we found that HRI paid \$50,000 for Roswell Park legal costs related to labor disputes involving Roswell Park employees. According to HRI officials, these employees were in non-scientific positions and the legal disputes were not related to scientific research. (See pp. 12-13)

Our report contains eight recommendations to improve controls over disbursements of discretionary funds.

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## **COMMENTS OF OFFICIALS**

**H**RI officials generally agreed with our recommendations and indicated actions planned or taken to implement them. A complete copy of HRI's response is included as Appendix B. Appendix C contains State Comptroller's Notes, which address matters of disagreement included in HRI's response.

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Major Contributors to This Report

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Response of HRI Officials to Audit

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State Comptroller's Notes

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# INTRODUCTION

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## Background

**H**ealth Research, Incorporated (HRI) is a not-for-profit corporation established by administrative action of the Commissioner of the Department of Health (Department) to administer federal, State, and private funding in order to support, supplement, and extend the research functions and programs of the Department. HRI has two main operating divisions, one located in the Capital District (Albany Division) and one located in Buffalo (Buffalo Division). The Albany Division serves major Department programs, including those at the Wadsworth Center. The Buffalo Division serves the research programs of the Roswell Park Cancer Research Institute (Roswell Park). The operating Divisions provide financial assistance, through discretionary funds, to these programs and their employees to enhance their research efforts. The Corporate Division, located in the Capital District, is responsible for the overall administration of the Albany and Buffalo Divisions.

HRI's accounting records are maintained on one central database called the Integrated Financial Accounting System (IFAS). The Corporate Division is primarily responsible for HRI's overall computer system, such as performing hourly, daily and cyclical system backups and managing user access accounts for the various applications on the system, including IFAS. The Buffalo Division directly inputs data to the IFAS system, with the exception of payroll data, which is uploaded to IFAS. The Buffalo Division is also responsible for maintaining its local Windows 2000 network, including daily backups and user access accounts.

Each operating Division has its own purchasing, payroll, and accounting staff to administer and authorize disbursements of discretionary funds. In general, HRI uses discretionary funding to recruit new staff, supplement scientists' salaries, provide educational seminars, and fund patent expenses. HRI generates discretionary revenues from three sources: interest income from investments, dividend income from investments, and technology transfer and contract fees.

For the fiscal year ended March 31, 2000, discretionary income totaled \$3.9 million, and expenditures were \$5.1 million. For the fiscal year ended March 31, 2001, discretionary income rose to \$10.1 million due to increased patent income, and expenditures rose to \$7.2 million as the Buffalo Division increased spending to recruit scientists. For the fiscal year ended March 31, 2002, discretionary income was \$6.3 million, and expenditures increased to \$7.3 million. HRI officials attribute the decrease in revenues from fiscal 2001 to fiscal 2002 to the expiration of some of its most lucrative patents and a drop in interest earnings from investments. They attribute the increase in disbursements from fiscal 2001 to fiscal 2002 to the Buffalo Division's recruiting costs.

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### ***Audit Scope, Objectives and Methodology***

**W**e audited HRI's administration of discretionary funds disbursements for the two fiscal years ended March 31, 2002. The primary objective of this financial related audit was to determine whether HRI has adequate control over disbursements of discretionary funds. In addition, we tested controls over IFAS to determine whether we could rely on the integrity of the data maintained in the IFAS database and determined whether HRI has adequate policies and procedures that protect the integrity and availability of the data and the network environment.

To accomplish our objectives, we interviewed Corporate, Albany, and Buffalo Division officials about controls over discretionary funds and examined HRI's policies and procedures pertaining to discretionary fund disbursements. We also analyzed a sample of 332 discretionary fund disbursement transactions worth \$658,365 at the Albany Division and 255 discretionary fund disbursement transactions worth \$3,156,129 at the Buffalo Division, from fiscal years 2001 and 2002. In addition to reviewing the sampled documentation, we used auditing software to analyze HRI's entire fiscal year 2001 and 2002 discretionary disbursements database for unusual items.

To test controls over IFAS, we reviewed two external audit reports on HRI's technology infrastructure and an internal controls review prepared by HRI Information Systems (IS) staff members. In addition, at our request, HRI's Director of IS completed an Internal Controls Questionnaire (ICQ) we provided. We interviewed HRI officials about their responses to

the reports and the ICQ to determine whether HRI has adequate controls in place for computer security and business continuity.

We conducted our audit in accordance with generally accepted government auditing standards. Such standards require that we plan and perform our audit to adequately assess those HRI operations included in our audit scope. Further, these standards require that we understand HRI's internal control structure and compliance with those laws, rules and regulations that are relevant to the operations included in our audit scope. An audit includes examining, on a test basis, evidence supporting transactions recorded in the accounting and operating records and applying such other auditing procedures as we consider necessary in the circumstances. An audit also includes assessing the estimates, judgments and decisions made by management. We believe that our audit provides a reasonable basis for our findings, conclusions and recommendations.

We use a risk-based approach to select activities for audit. Therefore, we focus our audit efforts on those activities we have identified through a preliminary survey as having the greatest probability for needing improvement. Consequently, by design, we use finite audit resources to identify where and how improvements can be made. We devote little audit effort to reviewing operations that may be relatively efficient or effective. As a result, we prepare our audit reports on an "exception basis." This report, therefore, highlights those areas needing improvement and does not address activities that may be functioning properly.

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### ***Internal Control and Compliance Summary***

Internal controls are the integrated activities, plans, attitudes, policies, and efforts of the people of the organization working together to provide reasonable assurance that an organization will fulfill its mission. They encompass a comprehensive system that helps an organization manage risk and enables its programs and administrative activities to operate efficiently and effectively. An effective internal control system typically sets standards in five critical areas: control environment, information and communication, control activities, risk assessment, and monitoring. We have identified internal control weaknesses in the administration of discretionary funds and provide details throughout our report.

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## ***Response of HRI and Department Officials to Audit***

Draft copies of this report were provided to HRI and Department officials for their review and comment. Their comments were considered in preparing this report and are included as Appendix B. Appendix C contains State Comptroller's Notes, which address matters of disagreement included in HRI's response.

In addition to the matters discussed in this report, we have also reported separately to Department officials about a number of other audit issues. While these are matters of lesser significance, officials should implement our recommendations related to these issues to improve HRI's controls over disbursements of discretionary funds.

Within 90 days after final release of this report, as required by Section 170 of the Executive Law, the Commissioner of the Department of Health 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.

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## ADMINISTRATION OF DISCRETIONARY FUNDS DISBURSEMENTS

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According to HRI officials, discretionary funds should be spent in pursuit of HRI's mission to assist the Department in protecting and promoting the health of New York State residents. HRI processed nearly 7,000 discretionary fund transactions totaling \$7.2 million in fiscal year 2001, and nearly 9,000 discretionary fund transactions totaling \$7.3 million in fiscal year 2002. Given the substantial volume and value of these discretionary fund transactions, HRI should have written policies and procedures to provide reasonable assurance that discretionary funds are spent properly. Such policies and procedures should establish reasonable spending limits for certain types of expenditures, such as meals and lodging, should require that vouchers submitted for payment be supported with adequate documentation, and should provide for adequate review of vouchers to determine compliance with policies and procedures. In addition, electronic data relating to discretionary disbursements should be adequately secured to protect its integrity. HRI management at the Corporate Division should monitor the Albany and Buffalo Divisions to determine compliance with policies and procedures.

We found that HRI does not have written policies and procedures for some categories of discretionary disbursements. Where HRI had policies and procedures, we found that HRI sometimes did not enforce them. As a result, HRI lacked adequate assurance that discretionary disbursements were reasonable in terms of their dollar amount, were properly supported, and were consistent with HRI's mission. We also found opportunities for HRI to strengthen controls related to data security. Our findings indicate the need for the Corporate Division to increase its management oversight of discretionary disbursement practices at the two operating Divisions, including developing and enforcing policies and procedures.

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## **Recruitment-Related Expenditures**

HRI officials stated they have recently increased their efforts to recruit and hire top research scientists at Roswell Park to help maintain its reputation as a competitive cancer research facility. In fiscal years 2001 and 2002, HRI reportedly spent \$2,132,304 of discretionary funds on a variety of recruiting related costs, including renovating and repairing lab space and equipment to accommodate new recruits, reimbursing employees and potential recruits for travel expenses, and reimbursing new recruits for relocation expenses. Given the recent increase in recruiting efforts, HRI managers should have policies and procedures in place to help them spend their discretionary recruiting funds as efficiently as possible. However, we found that HRI management had not established such policies and procedures for renovation and repairs, as well as for meals and lodging. Although policies and procedures were established for the reimbursement of relocation expenses, HRI did not always enforce them.

### **Renovation and Repairs**

The Buffalo Division has helped fund the renovating and repairing of lab space and equipment at Roswell Park to accommodate new recruits as part of its new scientist recruitment campaign. During fiscal year 2001, the Division reported 36 renovation and repair transactions totaling \$1,187,631. During fiscal year 2002, the Division reported 37 renovation and repair transactions totaling \$517,043. Given the large number and dollar value of renovation and repair transactions, HRI should have policies and procedures that provide for an adequate separation of duties related to monitoring renovation and repair projects and to authorizing payment for such work. HRI staff should also closely monitor renovation and repair projects and fully document their monitoring activities to provide assurance that contractors submit accurate bills and complete projects in compliance with their contracts. We found that such policies and procedures were not in place.

Duties related to the oversight of renovation and repair projects were not adequately separated. The Project Planning Manager was often the only person responsible for monitoring job progress, reviewing contractor's bills, and approving payment. In addition, documentation was not available to show that the

Project Planning Manager adequately monitored the progress of projects. Specifically, this employee did not maintain documentation, such as meeting notes and detailed materials listings, to document the progress of each project. We also found that this employee relied on the detailed billings submitted by contractors as adequate proof for payment. However, such billings do not provide an independent record that contractor billings for time and materials were accurate and that work was completed according to contract standards. In addition, since the Project Planning Manager also approved payment for work performed, there is added risk that HRI may be paying for substandard materials and labor or services it did not receive. It is additionally important for HRI to establish adequate policies and procedures over renovation and repairs because HRI plans to conduct similar large-scale renovation projects in the coming years.

### **Meals and Lodging**

Uniform, formal policies and procedures regarding meal and lodging reimbursements for recruitment purposes are important to enable HRI to adequately monitor and control such expenditures. Such policies and procedures should encourage employees and guests to pay rates that fall within reasonable spending limits, while also providing flexibility to exceed such limits with documented justification.

Of the 587 transactions we reviewed, 151, worth \$20,760, were for the reimbursement of meals and refreshments. HRI and Roswell Park employees incurred most of these expenses entertaining potential recruits and guest speakers. However, HRI management has not established specific meal allowances that employees must comply with when they serve in a recruitment, institutional promotion, or hospitality role. Rather, the Buffalo and Albany Divisions approved each meal voucher on a case-by-case basis. As a result, we found wide ranges in the amounts paid for meals. In one instance, we found that HRI reimbursed a Roswell Park employee for a \$647 dinner relating to recruitment. Six people attended the dinner, averaging approximately \$108 per person. By comparison, the State and federal meal allowance for dinner in Buffalo was \$34 per person.

In addition, HRI does not have policies and procedures regarding allowable lodging rates for non-employees, such as

visiting recruits. We found that in most instances, recruits visiting Roswell Park lodged at an independently operated hotel located within the Roswell Park campus. Lodging costs for these recruits appeared reasonable. However, our sample of recruitment expenses at the Buffalo Division also included invoices from a headhunter company for the reimbursement of travel expenses to candidates for a clinical position. These candidates stayed at various local hotels, and the Buffalo Division reimbursed them for rental cars, expensive restaurant and bar bills, unreceipted babysitting expenses, laundry, and snacks.

At the Albany Division, 35 of the 36 lodging transactions we reviewed were reimbursements to candidates who came to Albany for interviews. The 35 lodging transactions were for a total of 62 nights and ranged from \$40 to \$158 per night.

HRI management stated they have not established formal lodging and meal allowances because they do not want to discourage potential candidates with frugal reimbursement policies. However, in order to spend discretionary funds as efficiently as possible, HRI should establish formal policies to keep such expenditures within reasonable limits.

In addition, because some HRI staff have included alcohol-related expenses on their vouchers for recruitment activities, HRI should have a uniform policy for the reimbursement of alcohol expenses for the Albany and Buffalo Divisions. However, we found that HRI lacks a uniform policy. Albany Division officials stated they refer to federal OMB Circular No. A-122, which clearly states that alcoholic beverages are not reimbursable. Buffalo Division management stated they reimburse for alcohol under certain circumstances, such as when an employee is recruiting new candidates. We found that the Albany Division officials rejected all but one request for alcohol reimbursement in our sample. However, they often paid meal vouchers that did not include a detailed receipt and, therefore, would not have been able to determine whether alcohol was included in the total amount claimed. Similarly, we found an instance where Buffalo Division officials paid a voucher that included receipts from three bars and one hotel totaling about \$650, but only one of the receipts was itemized. Without requiring individuals to submit itemized receipts, HRI could be reimbursing for alcohol or other inappropriate charges without knowing it.

## **Relocation**

HRI's relocation policy for new employees specifically limits relocation reimbursement to \$3,000 for moving and travel expenses incurred within the employee's first year of employment. In addition, it does not allow for reimbursement of house hunting trips or temporary housing. At the Buffalo Division, we identified three disbursements for relocation expenses worth \$20,613, \$13,050, and \$8,605, respectively. These are well in excess of the \$3,000 limit. We also identified one disbursement worth \$638 for house hunting expenses, and two reimbursements for temporary housing (rent and security deposits) totaling \$3,790. Buffalo Division officials stated they do not follow HRI's relocation policy because they want to remain competitive with private companies in recruiting candidates. HRI management told us that they are in the process of revising their relocation policy to allow for increased reimbursement and more flexibility.

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## ***Employee Domestic Travel Costs***

**D**omestic travel expenses include transportation, lodging and meals for HRI employees who are required to travel for business. HRI management stated that reimbursements to employees traveling for business are limited to New York State's allowable rates at the time of the travel, and to the allowable federal rates for out-of-state travel. We found that HRI management does not always enforce this policy. As a result, we found significant variances in the reimbursement of employee travel expenses.

We evaluated the expenses of four Roswell Park employees and a person who was in recruitment status who attended the same business conference in New Orleans. While one employee limited his lodging expenses to the allowable government rate, the other employees exceeded the rate and were reimbursed. In addition, one employee was reimbursed for more nights than the conference lasted, and three employees were reimbursed for additional hotel, food and taxi expenses incurred by them and their guests.

HRI also reimbursed two of the employees for meals on a per diem basis; the two other employees and the person in recruitment status were reimbursed based on receipts. The person in recruitment status was reimbursed a total of \$626,

based on receipts that included a room service charge, a lunch meeting, and two dinner meetings, all of which were incurred on the same day, as well as extra charges including movie rentals and a miscellaneous room charge. We also found that HRI reimbursed one employee for a duplicate room service charge. One employee did not submit a detailed hotel bill, and therefore could have been reimbursed for additional expenses above the per diem rate or for other inappropriate charges.

At the Albany Division, we reviewed a lodging transaction involving two employees who attended a meeting in New York City. Lodging for the employees cost \$279 and \$321 per night, respectively, significantly more than the \$198 State rate for New York City at that time. If the employees had used the State rate, they would have saved a total of \$204.

Although HRI does not require claimants to include itemized receipts for their lodging expenses, some vouchers contained receipts for additional charges such as phone calls, parking, gratuity and room service. Although Albany Division officials rejected all but one request for additional expenses in our sample, there is a risk that, by not requiring itemized receipts, HRI may pay unnecessarily high prices for lodging and related hotel expenses.

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## ***Controls Over the Disbursement Process***

**H**RI policy requires that vouchers submitted for payment be supported with documentation that attests to the accuracy and legitimacy of the claimed expenses. Supporting documentation should provide enough evidence to justify the amount and purpose of the purchase. Typical supporting documentation includes items such as purchase orders, requisitions, meeting agendas, seminar notices, restaurant receipts and original vendor invoices with the appropriate authorizations. In addition, staff members should not approve disbursements without thoroughly reviewing supporting documentation. We found that HRI approved disbursements that were not properly supported. We also noted other opportunities for HRI to improve controls over the disbursement process.

We found that HRI frequently paid vouchers for meal reimbursement that did not include sufficient documentation to justify the expense. For example, we found that HRI paid for a

meal voucher that did not include a receipt, and one that included a receipt for an amount different than what was claimed. In addition, based on our review of 133 vouchers, we found that HRI paid for 63 meal vouchers worth \$8,421 that did not include an itinerary or similar documentation showing how long the guests stayed in Albany. We also identified a claim for reimbursement of speaker costs that did not include a copy of the seminar notice to evidence that the person was scheduled to speak. Such documentation is important to enable HRI staff responsible for reviewing vouchers to determine whether the guest was eligible for reimbursement or how many meals the guest should reasonably claim for that period of time.

The Buffalo Division paid a \$2,000 voucher for consulting fees, which did not include a consultant invoice or meeting agenda, and three invoices totaling \$589 for help wanted ads that did not have sufficient supporting documentation attached.

We also noted the lack of documentation related to vouchers paid by the Buffalo Division for Roswell Park functions. For example, we found that the Buffalo Division paid \$275 to a local restaurant for a Roswell Park executive luncheon with only a copy of a take-out menu as supporting documentation. Buffalo Division officials also paid a \$3,803 voucher for the Roswell Park Alumni Luncheon Reception held during the American Association for Cancer Research annual meetings that did not include any registration lists or official attendance records.

We also found several instances where HRI staff did not review vouchers and supporting documentation closely enough to identify errors before they paid them. For example, we found that Buffalo Division staff members made a \$6,346 duplicate payment because they based the disbursement on the vendor's monthly account statement rather than an original invoice. In addition, HRI and Roswell Park are tax-exempt corporations and as such are not required to pay sales tax on purchases. However, we found that Buffalo Division staff paid \$1,512 in sales tax on one service agreement, due to the lack of proper review of this disbursement. We noted other instances where HRI reimbursed vouchers containing sales tax and vouchers that included documentation that was either erroneous or did not support the amount claimed. This resulted in two duplicate payments worth \$141 and \$570, respectively, and two overpayments to vendors totaling \$242.

In reviewing the sampled documentation, we also identified multiple vouchers at the Buffalo Division that were signed by only one individual. These vouchers were for payments to this employee's family members worth \$180 and for services that exceeded the original contracted amount worth \$750. The lack of a secondary authorization on these vouchers creates the risk of potential improprieties.

HRI needs to establish policies and procedures that instruct staff to require sufficient documentation and carefully review it before they pay vouchers. Without adequate documentation, HRI management has no assurance that the voucher amounts are accurate or justifiable. In addition, they have no assurance that they actually received the services for which they paid.

In addition, some vendors offer purchase discounts to encourage customers to pay their bills quickly. HRI management has not established policies and procedures that require HRI staff to take advantage of purchase discounts. During our review of sampled transactions, we identified 31 instances (involving an advertising firm, a moving company, and a scientific journal advertisement) where HRI officials did not take advantage of purchase discounts. If staff had taken advantage of these discounts, they could have saved \$1,712.

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### ***Expenditures Not Related to HRI's Mission***

**A**ccording to HRI management, discretionary funds should be spent in pursuit of HRI's mission to assist the Department in its efforts towards protecting and promoting the health of New York State residents through prevention, science and the assurance of quality health care delivery.

In our sample of disbursements for the Buffalo Division, we identified several disbursements that did not appear to be directly related to HRI's mission. For example, we found that HRI paid \$50,000 for Roswell Park legal costs related to labor disputes involving Roswell Park employees. According to Roswell Park's legal counsel, these employees were in non-scientific positions and the legal disputes were not related to scientific research. We also found that HRI paid \$17,600 for the preparation of Roswell Park's Financial Business Plan, which was not directly related to scientific research. In addition, HRI paid for several Roswell Park employee functions such as an executive employee luncheon. In another example, HRI

reimbursed a construction contractor for two parking tickets worth \$35 each.

Due to rising recruiting costs and decreases in investment earnings, the Buffalo Division withdrew over \$2.2 million in reserved funds to cover its expenses during fiscal years 2001 and 2002. By using discretionary funds for Roswell Park's operating expenses and employee programs, HRI management is creating the risk that funds will not be available to fulfill HRI's mission. HRI should clearly define and communicate the criteria for dispersing discretionary funds to ensure they are spent as intended.

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## ***Network and Application Security***

### **Logical and Physical Access Controls**

**A**s the administrator of discretionary funds, HRI records revenue and disbursement information on IFAS. It is essential that HRI effectively control logical access to HRI's system (via software, procedures, etc.) and establish adequate physical security over hardware (via locked doors, environmental controls, etc.). Overall, we conclude that we can rely on the integrity of HRI's system; however, HRI has not implemented all of the necessary physical and logical controls available to maximize data security.

User account settings can be configured to establish password protections and log-in controls which limit a user's access to system resources. HRI has not enabled these controls on every server and workstation to limit the risk of an unauthorized user accessing the system through an unattended terminal. As a result, restricted information could be accessed by anyone in the vicinity of the terminal. Legal notices are another security precaution used to demonstrate security controls. A legal notice is a message that should appear whenever a user logs onto the system. The legal notice provides employees with general security awareness and increases the legal liability of individuals who may attempt to access a system without authorization. Currently, a legal notice is not displayed at logon. Restricting access to the server room is also critical to a secure computing environment. Currently, HRI uses a standard lock and key to limit access to this room and does not maintain a written access log. Electronic key cards and push-button cipher locks could enhance convenience and also provide a log of user access.

Violation and exception reports enable management to determine, at a glance, whether unauthorized users are compromising their systems. HRI currently maintains, backs up, secures and archives audit and security log files and reports; however, it does not have formal policies and procedures that require HRI management to review the reports on a regular basis. This creates the risk that HRI officials may not detect unauthorized access attempts or changes to data.

HRI should have procedures that require sensitive data and software to be removed from computers when they are retired from use to avoid exposing confidential grant information to unauthorized individuals. HRI does not have documented procedures nor does it document whether retired or transferred items are examined for sensitive information. HRI should use a standard form or a log to document that all discarded or transferred items are examined for sensitive information and that this information is cleared before the items are released.

### **Business Contingency/Disaster Recovery Plan**

An effective business continuity/disaster recovery plan (plan) should address the entire range of potential disruptions. These may include relatively minor interruptions, such as temporary power failures, as well as major disasters, such as fires or natural disasters that would require reestablishing operations at a remote location. The plan should be thoroughly documented and periodically tested through simulation exercises to identify and correct weaknesses.

HRI has not completed documenting and testing its business contingency and disaster recovery plans. Without fully documented and tested disaster recovery plans, HRI cannot be assured that business operations will continue or that data integrity will be maintained if the system goes down or is disrupted. HRI officials should periodically test their plans in disaster simulation exercises to identify important weaknesses and take corrective action. Test results should be reported to top management so that the need for modification and additional testing can be determined and so that top management is aware of the risks of continuing operations with an inadequate disaster recovery plan.

HRI should act promptly to strengthen logical and physical controls and complete its business contingency/disaster recovery plan. In their response to our preliminary findings, HRI officials agreed to implement our network and application security recommendations.

### **Recommendations**

1. Increase Corporate Division oversight of discretionary disbursement practices at the Albany and Buffalo Divisions to determine compliance with policies and procedures.
2. Strengthen controls over renovation and repair projects by:
  - Requiring an adequate separation of duties between officials who supervise the projects and those who approve them for payment.
  - Establishing policies and procedures that require the Project Planning Manager to fully document monitoring efforts such as conducting site visits, observing job progress, making sure the contractor complies with the contract, and determining whether the contractor should be paid.
3. Develop and uniformly apply recruitment policies and procedures relating to the reimbursement of meals, lodging, alcohol, and relocation costs. As part of these policies and procedures, define the circumstances under which it may be appropriate to deviate from standard practices, including the supporting documentation and approvals necessary.
4. Enforce existing policies and procedures relating to the reimbursement of employee domestic travel costs. Define the circumstances under which it may be appropriate to deviate from standard practices, including the supporting documentation and approvals necessary.

## **Recommendations (Cont'd)**

5. Improve controls over the disbursement process by:
  - Establishing policies and procedures that instruct staff to require sufficient documentation, including itemized receipts, and to carefully review such documentation before they pay vouchers.
  - Implementing controls to avoid the payment of sales tax on tax-exempt purchases.
  - Establishing policies and procedures that require HRI staff members to take advantage of purchase discounts.
6. Clearly define the types of expenditures that are consistent with the mission of HRI and communicate such guidance to employees responsible for reviewing and approving disbursements.
7. Improve network and application security controls by:
  - Strengthening logical controls over the network by activating security settings and features available in the operating system environment.
  - Strengthening physical security by using electronic key cards and logging access to the server room, and documenting that all discarded or transferred computer equipment is examined for and cleared of sensitive information before the items are released.
8. Complete a formal disaster recovery plan including fully documenting and annually testing the plan's effectiveness through disaster recovery and simulation exercises.

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## MAJOR CONTRIBUTORS TO THIS REPORT

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March 14, 2003

Kevin M. McClune  
Audit Director  
Office of the State Comptroller  
110 State Street  
Albany, New York 12236

re: Draft Audit 2002-S-14

Dear Mr. McClune:

Attached are comments in response to your draft audit report relating to the comments on Disbursement of Discretionary Funds (2002-S-14). Thank you for the opportunity to comment at this stage in the audit process.

Sincerely,

Dennis P. Whalen  
Executive Deputy Commissioner

Enclosure

**Health Research, Inc.  
Comments on the  
Office of the State Comptroller's  
Draft Audit Report  
2002-S-14 Entitled  
“Disbursement of Discretionary Funds”**

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The following are the Health Research Inc.'s (HRI) comments on the Office of the State Comptroller's (OSC) Draft Audit Report (2002-S-14) entitled “Disbursement of Discretionary Funds”.

The following comments relate to OSC's observations throughout the report.

Renovation and Repairs

A project manager is directly assigned to each job but job progress is reviewed routinely by the internal architect and planning director as well. Consequently, we believe that there is adequate oversight in the process. Henceforth, the internal architect or planning director will provide secondary authorization on all invoices in order to provide formal segregation of responsibilities.

Meals and Lodging

Much of the audit report addresses expenses related to the large recruitment effort at Roswell Park Cancer Institute (RPCI), and the report recommends the establishment of standard reimbursement rates. It is our opinion that expenses for meals and lodging associated with recruitment activity should be handled on a case by case basis.

The audit report notes the wide range of reimbursement rates for lodging and meals. This does not represent a procedural weakness, but rather the wide range of candidates being recruited, from Department Heads and Senior Scientists to post doctoral fellows and high-level graduate students. It should be expected that there would be a wide range of reimbursement amounts. Since all of the reimbursement levels that are approved are justified, establishing a maximum reimbursable amount somewhere in the middle of the range will have the effect of increasing the dollar amount of reimbursements at the lower end, while not decreasing the amounts at the upper end because exceptions to the maximum will be approved in those cases. Any review of expenses related to recruitment should be viewed against the outcome, which has been and will continue to be quite successful, such as:

- ♦ 40+ senior staff added; plus a large number of support staff;
- ♦ 30 senior staff are still under recruitment;
- ♦ staff hired have brought with them \$8-\$10 million in annual new research funding; and
- ♦ projections indicate that the new recruits will increase HRI's grant revenue by 50%.

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Note  
1

Meals and Lodging, continued:

Regarding the OSC statement on alcohol, it should be noted that Office of Management and Budget Circular A-122 refers to the guidelines on the use of federal dollars. It has no bearing on the use of non-federal funds. It is our position that reimbursement for alcohol in certain circumstances involving institutional promotion, hospitality, or recruiting, is reasonable and a generally accepted business practice. We will explore the creation of formal, general guidelines, and approval processes, that will ensure that each expense for hospitality, promotion, or recruiting is appropriate to the specific situation.

Relocation

In order to recruit top candidates, it is required to pay reasonable and customary costs of relocation. The \$3,000 limit in the Albany policy is based on the State policy, which we believe was derived from an IRS limitation on non-taxable reimbursement that was eliminated in 1993. We are in the process of redrafting the policy that eliminates this limit. Some items included in relocation expenses, such as temporary housing, are the subject of individual recruitment negotiations. In all cases, claims are reviewed for reasonableness.

Employee Domestic Travel Costs

HRI does not agree with the facts as reported by the auditors with regard to the travel expenses for the New Orleans conference. The fact that the five individuals who attended stayed at four different hotels is reflective of the reality of availability of accommodations and limitations in rooms at alternative sites near the conference. Only four individuals were employees at the time of the conference; the fifth was in recruitment status.

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Note  
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The individual who was reimbursed over the meal per diem was in recruitment status, was expected to begin employment at Roswell Park in June of 2001 and therefore, was not held to the employee per diem standard. In addition to attending the conference, this individual also conducted interviews with potential recruits to hire for his department at Roswell Park.

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Note  
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It is our policy to employ standard rate limits for employees, unless adequate justification is received for a higher amount. In the instance noted for employees travel to New York City on business, we acknowledge that the justification is not on file, which is counter to our policy.

Our policy requires employees to submit itemized receipts for all lodging expenses. However, in instances where this information is lost or may not be available, appropriate notations should be included with the voucher.

Controls Over the Disbursement Process

We strongly disagree that HRI *typically* paid vouchers for meal reimbursement that did not include sufficient documentation to justify the expense. There were several instances noted where the auditors state documentation was not attached for meal reimbursements. In one case they state that the receipt and the amount claimed were different. In this case the individual was reimbursed for less than the total receipt. Of the 63 meal vouchers referenced in

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Note  
4

Controls Over the Disbursement Process, continued

the report, half of the vouchers were for meal reimbursements for seminar speakers on the day of the seminar. The seminar notices were attached to all vouchers indicating that the seminar took place the day of the meal. In the remaining cases mentioned, seminar sheets were attached documenting the purpose of the individual visit, however, the meals were for the day before or after the seminar. Our Accounts Payable staff verifies the period of time for which the speaker is known to be in Albany prior to making these payments. However, the itinerary or other supporting documentation is often attached to a separate payment request for the speakers' hotel costs, or honorarium payment. We will consider requesting itineraries be attached for those reimbursements for dates other than the date of the seminar.

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Note  
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The \$2,000 consultant payment referenced in this section of the report was a payment of honoraria to a scientist invited to critique a scientific program for the RPCI External Advisory Board. A voucher submitted and approved by the RPCI scientist who organized the visit is confirmation that the services were provided.

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Note  
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Appropriate supporting documentation for help wanted ads should be on file in all instances. We will review existing procedures to ensure that proper practices result in documentation on file. It should be noted, however, it was confirmed that the ads in question ran as specified prior to vouchers being processed for payment.

With regards to the documentation related to employee functions, the \$3,803 luncheon voucher was not for an employee function but for the AACR (American Association of Cancer Researchers) meeting and was arranged to expose the attendees to the recent changes and accomplishments that were occurring at RPCI. This was not the type of event where an attendance log would have been appropriate. However, an administrator from the Roswell staff at the event confirmed the head count charged by the caterer.

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Note  
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We acknowledge the instances mentioned with regard to payment of sales tax, and a duplicate payment made in error. We will review our procedures with staff to minimize these types of isolated oversights.

With regard to the payments to an individual's family members worth \$180, this was an isolated incident where the RPCI organizer of an event was short on volunteers and at the last minute had to recruit three family members to help out. This voucher required and received secondary approval from the HRI Business Office.

We acknowledge that purchase discounts should be taken when possible and will review this process with staff to ensure they are taken where possible in the future.

Expenditures Not Related to HRI's Mission

We disagree that any HRI expenses are inconsistent with our mission. The two items noted, payment for an RPCI strategic plan and support for the RPCI Counsel's office, were for general support needed by RPCI. The Buffalo Division's mission is to support RPCI, which includes general organizational support as well as specific expenses for research.

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Note  
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\* See State Comptroller's Notes, Appendix C

## Network and Application Security

In the introduction, the report states that the Buffalo Division exports its data to the Corporate Division where it is electronically entered onto IFAS. This statement is incorrect. The Buffalo Division directly inputs data to the IFAS system with the exception of payroll. A separate package is used for processing payroll and the Buffalo Division uploads this data to IFAS. In addition, except for the local Windows 2000 network accounts in Buffalo, all user accounts are managed, added, modified and terminated by the Corporate Division. Except for the local Windows 2000 network in Buffalo, hourly, daily, weekly and monthly backups are performed and managed by the Corporate Division.

* <b>Note</b> 8
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The following are HRI's comments to specific OSC recommendations.

### **Recommendation #1:**

Increase Corporate Division oversight of discretionary disbursement practices at the Albany and Buffalo Divisions to determine compliance with policies and procedures.

### **Response #1:**

We are in the process of developing our internal audit function to ensure periodic reviews of all processes and to continue to improve on our current controls.

### **Recommendation #2:**

Strengthen controls over renovation and repair projects by:

- ♦ Requiring an adequate separation of duties between officials who supervise the projects and those who approve them for payment.
- ♦ Establishing policies and procedures that require the Project Planning Manager to fully document monitoring efforts such as conducting site visits, observing job progress, making sure the contractor complies with the contract, and determining whether the contractor should be paid.

### **Response #2:**

- ♦ We believe we have adequate oversight of this process, but will implement formal segregation of duties for those who review these projects through requiring that the planning director formally authorize payments in the future upon recommendation of the project manager.
- ♦ All construction and renovation activity is bid, let and reimbursed via a competitive process which assigns costs to agreed upon project milestones, satisfactory progress or task completion. Reimbursements for costs are based upon evaluation of work progress and on-site inspection. Measures will be taken to more formally document this current activity.

**Recommendation #3:**

Develop and uniformly apply recruitment policies and procedures relating to the reimbursement of meals, lodging, alcohol and relocation costs. As part of these policies and procedures, define the circumstances under which it may be appropriate to deviate from standard practices, including the supporting documentation and approvals necessary.

**Response #3:**

We disagree with the recommendation that we establish specific reimbursement rates, given the wide degree of variation in circumstance. We will explore the creation of formal, general guidelines, and approval processes, that will ensure that each expense for hospitality, promotion, or recruiting is appropriate to the specific situation.

* <i>Note</i> 1
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**Recommendation #4:**

Enforce existing policies and procedures relating to the reimbursement of employee domestic travel costs. Define the circumstances under which it may be appropriate to deviate from standard practices, including the supporting documentation and approvals necessary.

**Response #4:**

We will continue to follow existing policies regarding employee travel reimbursement and will continue to request justification for deviations from current employee travel reimbursement policy.

**Recommendation #5:**

Improve controls over the disbursement process by:

- ♦ Establishing policies and procedures that instruct staff to require sufficient documentation, including itemized receipts, and to carefully review such documentation before they pay vouchers.
- ♦ Implementing controls to avoid the payment of sales tax on tax-exempt purchases.
- ♦ Establishing policies and procedures that require HRI staff members to take advantage of purchase discounts.

**Response #5:**

It is our policy to require sufficient documentation for payments. These policies and procedures are in place. We will review our current processes with staff to reinforce current processes and procedures, and to ensure that errors related to sales tax and purchase discounts are minimized.

\* See State Comptroller's Notes, Appendix C

**Recommendation #6:**

Clearly define the types of expenditures that are consistent with the mission of HRI and communicate such guidance to employees responsible for reviewing and approving disbursements.

**Response #6:**

HRI is a not-for-profit corporation whose mission is to assist the Department of Health and Roswell Park Cancer Institute in protecting and promoting the health of New York State residents. All disbursements made are related to that mission.

* Note 7
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**Recommendation #7:**

Improve network and application security controls by:

- ♦ Strengthening logical controls over the network by activating security settings and features available in the operating system environment.
- ♦ Strengthening physical security by using electronic key cards and logging access to the server room, and documenting that all discarded or transferred computer equipment is examined for and cleared of sensitive information before the items are released.

**Response #7:**

- ♦ HRI has strengthened the logical security of our systems by activating the security settings available in Windows 2000. HRI has implemented a policy to have users turn off their machines at night, and we will review access logs to identify and verify people who are using the systems outside of regular business hours. HRI is in the process of implementing a legal notice, which will appear upon login to any of our systems.
- ♦ HRI will increase the physical security of our systems by using electronic key cards for computer room access and by ensuring that sensitive information is removed from any computers before they are released. HRI now has a documented policy and a standard form to document that appropriate steps have been taken before a machine is transferred or discarded. This will ensure that sensitive information is removed from computers.

**Recommendation #8:**

Complete a formal disaster recovery plan including fully documenting and annually testing the plan's effectiveness through disaster recovery and simulation exercises.

**Response #8:**

HRI recognizes the risks inherent in implementing a Disaster Recovery Plan that is tested only once a year. Configuration changes and new systems are delivered on a frequent basis. Additionally, there exists a risk that disaster recovery systems will be eliminated to deal with short-term emergencies or needs.

Therefore, the HRI Information Systems has a policy that all critical business systems must have an offsite warm backup system available in the event of a disaster. All system backups are performed to an offsite tape jukebox. The offsite warm backup systems provide test environments for the production systems. These backup systems are actively used for testing and are restored from the tape jukebox periodically. This policy ensures that HRI has systems that are available and active in the event of an emergency.

Currently, file system backups are performed daily, and database dumps are made periodically throughout the day. In the event of a complete loss of the computer room, HRI will, at most, lose a few hours worth of transactions. Over the next few months, HRI will increase the number of systems that are replicated at the offsite location.

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## **State Comptroller's Notes**

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1. We do not agree that the appropriateness of expenses, whether for recruitment or for other purposes, should be viewed against the outcome. Therefore, we encourage HRI officials to create formal guidelines and approval processes for paying recruitment related expenses, such as for meals and lodging.
2. HRI officials disagree with information that is not contained in our report. Our findings with respect to varying reimbursement rates for employees staying in the same hotel, reimbursement for more nights than a conference lasted and reimbursement for additional hotel, food and taxi expenses incurred by employees and guests support our recommendation that HRI enforce existing policies for reimbursement of employee travel costs and define the circumstances under which it is appropriate to deviate from standard practices.
3. We modified our report to correctly state that the person was not an employee, but in recruitment status. However, the point of our finding is that the person received excessive reimbursement, such as for the cost of two dinners on the same day.
4. Based on our review of 133 vouchers, we found that HRI paid 63 meal vouchers that did not include adequate supporting documentation. Consequently, we conclude that HRI frequently paid meal vouchers that did not include adequate supporting documentation. We have modified our report accordingly. Additionally, while supporting documentation may have been attached to a separate payment request, such documentation was not available for our review or for the Accounts Payable staff who processed these vouchers.
5. The voucher submitted by the Roswell Park Cancer Institute scientist did not include any supporting documentation, such as a consultant invoice or meeting agenda. We maintain that vouchers should be adequately supported.
6. We modified our report to correctly state the purpose of this luncheon. However, we maintain that vouchers should be adequately supported.
7. We do not agree that any HRI expenses are consistent with HRI's mission. According to HRI's certificate of incorporation and HRI's response, HRI's mission is to provide more extensive conduct of studies and research into the causes, nature and treatment of diseases, disorders and defects of particular importance to the public health. Consequently, HRI's expenditures should be related to research and the public health. We maintain that the disbursements we cited do not appear to be directly related to HRI's mission. Further, as a component of HRI, the Buffalo Division should make expenditures consistent with HRI's official mission, not its own mission in relation to the Roswell Park Cancer Institute. Additionally, our report cites three, not two disbursements that did not appear to be directly related to HRI's mission. We also noted reimbursement to a construction contractor for parking tickets.
8. We modified our report accordingly.