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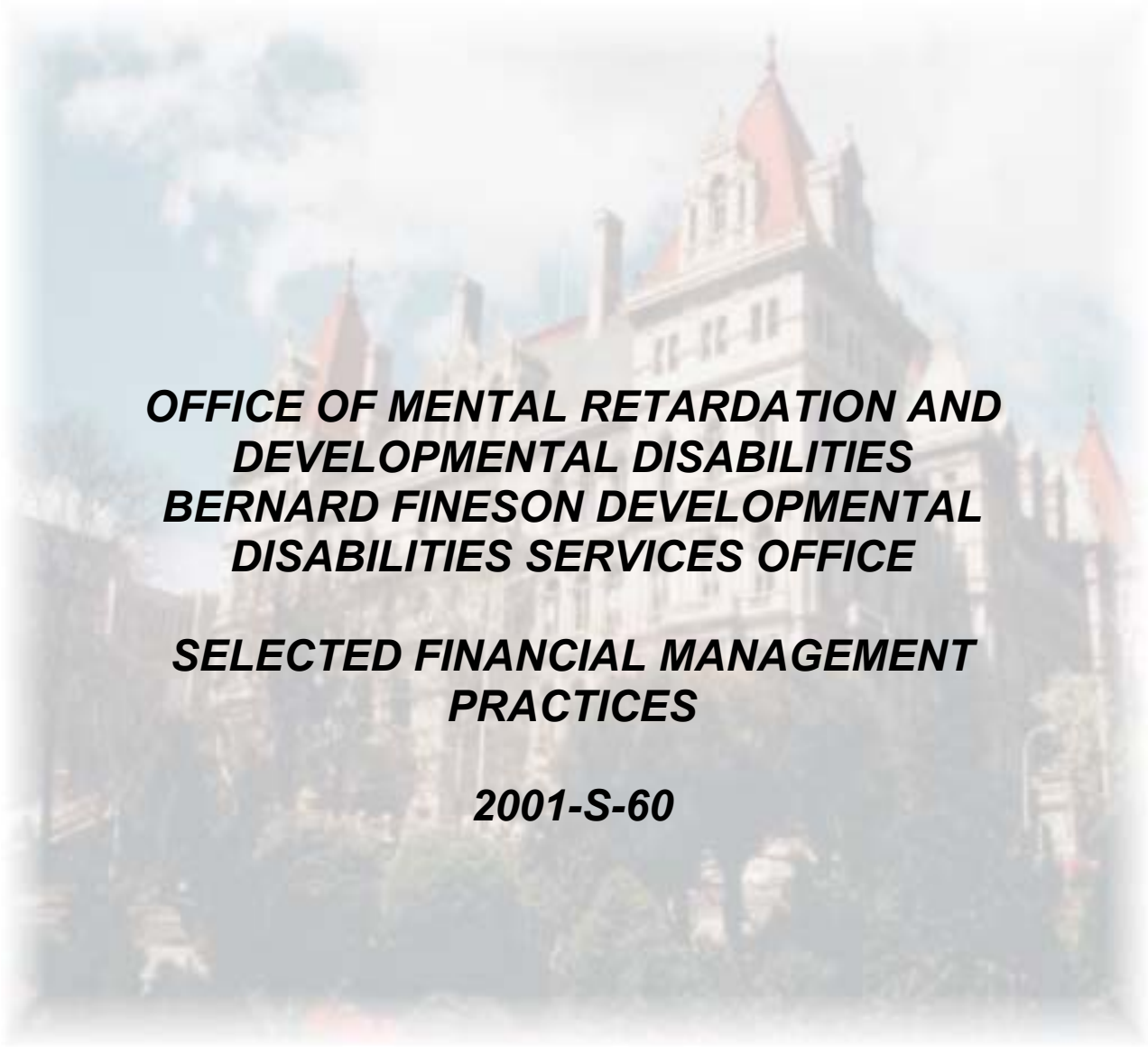

OFFICE OF MENTAL RETARDATION AND DEVELOPMENTAL DISABILITIES BERNARD FINESON DEVELOPMENTAL DISABILITIES SERVICES OFFICE

SELECTED FINANCIAL MANAGEMENT PRACTICES

2001-S-60

DIVISION OF MANAGEMENT AUDIT AND STATE FINANCIAL SERVICES

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H. Carl McCall
STATE COMPTROLLER

Report 2001-S-60

Mr. Thomas A. Maul
Commissioner
Office of Mental Retardation and Developmental Disabilities
44 Holland Avenue
Albany, NY 12229

Dear Mr. Maul:

The following is our report on selected financial management practices of the Bernard Fineson Developmental Disabilities Services Office.

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. Major contributors to this report are listed in Appendix A.

Office of the State Comptroller
Division of Management Audit
and State Financial Services

November 27, 2002

EXECUTIVE SUMMARY

OFFICE OF MENTAL RETARDATION AND DEVELOPMENTAL DISABILITIES

BERNARD FINESON DEVELOPMENTAL DISABILITIES SERVICES OFFICE

SELECTED FINANCIAL MANAGEMENT PRACTICES

SCOPE OF AUDIT

The Office of Mental Retardation and Developmental Disabilities (OMRDD) provides a comprehensive system of care for over 120,000 individuals (consumers) with developmental disabilities and their families through 13 Developmental Disabilities Services Offices (DDSOs) and a network of not-for-profit private agencies and State-operated programs based in the communities. The Bernard Fineson DDSO (Bernard Fineson) is responsible for coordinating and delivering services to consumers residing in the New York City borough of Queens. As of March 31, 2002, Bernard Fineson served about 700 consumers. Bernard Fineson operates two campus locations in Queens Village and Howard Beach; 15 group homes; and 149 family care residences. Bernard Fineson's budget for the State fiscal year ended March 31, 2002 totaled $44.5 million, of which $39.3 million was for personal services and $5.2 million was for non-personal services. Bernard Fineson has about 1,070 employees.

Our audit addressed the following question relating to the selected financial management practices of Bernard Fineson:

- Has Bernard Fineson implemented adequate internal controls over consumer funds, staff overtime, employee time and attendance, purchasing and equipment inventory?

AUDIT OBSERVATIONS AND CONCLUSIONS

We found significant internal control weaknesses over consumer funds, overtime, employee time and attendance, purchasing and equipment inventory. As a result, there is an increased risk that funds for these areas may not have been accounted for properly or used for their intended purposes.

Bernard Fineson is responsible for maintaining an adequate system of control over the personal funds of consumers. Withdrawals from consumer accounts should be properly authorized, and receipts should be maintained to substantiate that approved purchases were actually made. Supervisors should periodically review transactions to ensure that required procedures are followed. However, we found that Bernard Fineson was not adhering to established procedures, and as a result, consumer funds were at risk of being misappropriated or misused by those responsible for safeguarding them. (See pp. 5-8)

We determined that controls relating to the documentation of overtime need improvement. For example, employee time records did not always support the number of overtime hours paid, time records were not always properly signed, and overtime was not always pre-approved as required. In addition, we found instances at the group homes where employees did not adhere to the required sign-in/out procedures. (See pp. 11-14)

Bernard Fineson must ensure that purchases are justified and approved, a reasonable price is obtained, and goods and services paid for are actually received. We found instances where Bernard Fineson purchased goods and services without adhering to these requirements. We also identified instances where Bernard Fineson engaged in the practice of split ordering, whereby it used multiple purchase orders to stay below the dollar threshold that would have required adherence to more stringent purchasing requirements. (See pp. 15-17)

We also found that Bernard Fineson did not adequately safeguard and account for its equipment inventory. We could not locate numerous equipment items that were recorded on the official inventory records. In addition, Bernard Fineson had not taken a physical inventory since March 1996, even though it was required to take annual inventories. In addition, we found a general lack of knowledge by responsible officials concerning equipment control policies and procedures. (See pp. 19-20)

Our report contains nine recommendations to improve the financial management practices of Bernard Fineson.

Response of Officials

OMRDD and Bernard Fineson officials agree with the recommendations made in this report and indicated the steps they have taken or will take to implement them. A complete copy of OMRDD's response is included as Appendix B.

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INTRODUCTION

Background

The Office of Mental Retardation and Developmental Disabilities (OMRDD) provides a comprehensive system of care for over 120,000 individuals (consumers) with developmental disabilities and their families through 13 Developmental Disabilities Services Offices (DDSOs) and a network of not-for-profit private agencies and State-operated programs based in the communities. The Bernard Fineson DDSO (Bernard Fineson) is responsible for coordinating and delivering services to consumers residing in the New York City borough of Queens. As of March 31, 2002, Bernard Fineson served 683 consumers in three types of settings: campus, group home, and family care residence. Bernard Fineson operates two campus locations in Queens Village and Howard Beach (serving 295 consumers); 15 group homes (serving 106 consumers); and 149 family care residences (serving 282 consumers).

Bernard Fineson's budget for the State fiscal year ended March 31, 2002 totaled $44.5 million, of which $39.3 million was for personal services and $5.2 million was for non-personal services. Bernard Fineson has about 1,070 employees.

Audit Scope, Objectives and Methodology

We audited selected financial management practices of Bernard Fineson for the period April 1, 2000 through December 21, 2001. The objectives of this financial related audit were to determine whether internal controls over consumer funds, overtime, employee time and attendance, purchasing and equipment inventory were adequate to ensure assets were safeguarded and funds were expended appropriately. To accomplish our objectives, we interviewed Bernard Fineson officials and reviewed applicable laws, rules, regulations, policies and procedures.

To test controls over consumer funds, we randomly sampled consumer accounts listed on the Client Cash System as of November 23, 2001 and determined if selected withdrawals

from those accounts were adequately documented. To determine the adequacy of controls relating to overtime and employee time and attendance, we randomly selected overtime checks from the New York State PaySR database of checks issued to Bernard Fineson employees for the period April 1, 2000 through November 14, 2001 and reviewed the official documentation that was required to support the overtime paid. We also observed the employee sign-in/sign-out procedures at five randomly selected group homes. To examine Bernard Fineson's compliance with purchasing procedures and guidelines, we randomly selected discretionary purchase orders of $2,500 or more and reviewed them for proper authorizations, and for required bids and quotes. To assess whether controls over equipment inventory were properly maintained, we obtained a listing of Bernard Fineson's equipment from the Equipment Inventory System and attempted to physically locate and identify equipment inventory items listed at six randomly selected group homes. We also randomly selected equipment inventory items with numbered tags listed as located in residential living units on the two campuses and attempted to physically locate and identify the sampled equipment. The specific details of our tests of transactions are explained in the body of this report.

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 OMRDD operations included within the audit scope. Further, these standards require that we understand OMRDD's internal control structure and its 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 our audit provides a reasonable basis for our findings, conclusions and recommendations.

We use a risk-based approach to select activities for audit. 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 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.

Internal Control and Compliance Summary

Our evaluation of the internal controls over consumer funds, overtime, employee time and attendance, purchasing, and equipment inventory identified significant control weaknesses. As a result, there is an increased risk that funds for these areas may not have been accounted for properly or used for their intended purposes. Details of these matters are discussed in the appropriate sections of this report.

Response of OMRDD Officials to Audit

Draft copies of this report were provided to OMRDD 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 contained in OMRDD's response.

Within 90 days after final release of this report, as required by Section 170 of the Executive Law, the Commissioner of the Office of Mental Retardation and Developmental Disabilities 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.

CONSUMER FUNDS

The Bernard Fineson Business Office, which is located at the Queens Village campus, maintains a cash account on its Client Cash System for every consumer. This system records every deposit and withdrawal for each account. Typical transactions include deposits of Social Security checks and withdrawals for items the consumers need or want. Withdrawals are made to replenish cash in the consumers' personal allowance accounts maintained at the residences to meet the consumers' personal and recreational needs. Supporting documents and store receipts are maintained at both the Business Office and the residences depending upon the transaction.

To test controls over consumer funds, we randomly sampled 25 of the 751 consumer accounts listed on the Client Cash System as of November 23, 2001. For each of the 25 accounts, we obtained the listing of account transactions for the period April 1, 2000 through November 23, 2001 and judgmentally selected one withdrawal and one deposit (emphasizing larger transactions) to determine whether the required supporting documentation was properly prepared, authorized and retained by the Business Office. For the same 25 consumer accounts, we obtained the account ledger cards, store receipts, and supporting documentation from the appropriate group home, campus ward or family residence and reviewed the controls over the personal allowance accounts for the judgmentally selected three-month period of October 1, 2001 through December 31, 2001.

We found that the Business Office could not locate some forms supporting withdrawals, had not properly approved or completely filled out other forms, and did not always retain store receipts. We also found that personal allowance account ledger cards and receipts were not always properly maintained by staff in the family care residences. Our findings show significant weaknesses in controls over consumer funds. Consequently, there is an increased risk that funds may be misappropriated or misused by those responsible for safeguarding them.

Withdrawals from Consumer Cash Accounts

Withdrawals from consumer cash accounts should be approved and documented in accordance with OMRDD's policies and procedures. Supporting documents authorizing the withdrawal of funds should be properly completed and approved, and maintained at the Business Office. Store receipts to verify that the purchase was made, and the re-deposit of change from purchases, should be submitted to the Business Office within three days of the purchase. In our review of the 25 withdrawals (totaling $9,831) from the cash accounts, we found that the Business Office had not followed required policies and procedures for 21 of the transactions, as follows (some transactions had more than one problem).

For eight withdrawals (totaling $3,095), the Business Office could not locate store receipts (six withdrawals), or both the supporting documents and store receipts (two withdrawals). For one of the withdrawals missing a store receipt, the family care provider never made a purchase, and did not return the $220 until two and one-half months later, long after the required three-day period. Also, for another withdrawal, for $150, there was no record that $28.28 in change from a purchase was returned and re-deposited into the consumer's cash account.

The supporting documents for various transactions were missing authorizing signatures, as follows:

- For ten transactions totaling $4,778, there was no signature on the "Order Drawn By" authorization line of the supporting document. Therefore, we were unable to determine if the person who initiated the transaction was authorized to do so.

- For two transactions totaling $2,070, including one withdrawal that was described above as missing a purchase receipt, supporting documents were not approved by a Deputy Director as required for withdrawals of $500 and more.

- For 11 transactions totaling $6,292, the supporting signature for receipt of the funds from the cashier was absent. Without this signature, it cannot be determined to whom the cashier gave the funds. Three of these withdrawals were also ones for which no receipts were

available. For these withdrawals totaling $1,940 there is no support for the purpose of the withdrawal or who received it.

- For five transactions totaling $193, there was no signature of the cashier who disbursed the funds. Therefore, there is no proof that an authorized individual disbursed the funds. Since some forms list additional transactions that were not in our sample, the actual amount of funds disbursed without the cashier's signature on these forms was $981.

Expenditures from Personal Allowance Accounts

Withdrawals are made from the consumer cash accounts to replenish cash in the personal allowance accounts maintained at the residences. The residences must keep a ledger card showing all deposits, withdrawals, balances, dates and descriptions of transactions and retain original receipts for purchases. In the case of consumers who are deemed competent to handle their own funds, the consumers may sign as proof of acceptance of funds, and therefore receipts do not have to be provided or retained. Bernard Fineson staff members should review the personal allowance accounts once per month to reconcile totals and verify that all required procedures have been followed.

We reviewed the controls over the personal allowance accounts maintained at the residences for the consumers. Of the 25 consumers in our sample, 13 resided in family care residences, 10 resided on a campus and 2 resided at group homes. We found that the required records were not maintained at all for consumers residing on a campus. Our review of the account ledger cards, store receipts and supporting documentation for personal allowance accounts maintained at the family care residences found that receipts were not always maintained and that account ledger cards were not always accurate or reviewed.

For the ten consumers residing at campus locations, we found that store receipts were not available. Bernard Fineson officials told us that they do not maintain these documents for consumers residing on campus. In addition, for consumers who are capable of making their own purchases, Bernard Fineson does not request signatures from those consumers to document

that the funds were disbursed to them. Typically, the withdrawals made for these consumers are termed "weekend spending" by Bernard Fineson and are used to enable the consumer to participate in day-to-day activities or meet incidental needs. We obtained and totaled the weekend spending for October, November and December 2001 and found that it amounted to $12,000. If these three months were representative of the entire year, we estimate that there is a potential $48,000 in weekend spending for a one-year period for which there is no documentation to support the nature of the expenditure or receipt of funds by the consumers.

In addition, the family care providers did not always maintain proper documentation for the 13 consumers in our sample, as follows.

- There were no receipts to support the purchases made for five consumers in our sample. For two additional consumers, some receipts were missing. Also, for two consumers, the receipt amounts did not match the expenditure amounts.

- Bernard Fineson staff did not review the account ledger cards on a monthly basis for three consumers during our three-month review period. For one of these consumers, there was no evidence of review for the full three-month period.

- When we reviewed the balance forward, deposits and withdrawals and re-performed the arithmetic, we found that the recorded ending balances were understated for three consumers by $30.03, $18.28 and $1.00, respectively. For three other consumers, we found that the recorded ending balances were overstated by $7.38, $7.00 and $1.00, respectively. Without accurate balances, the residences cannot know the actual amount of funds available for each consumer.

- The personal allowance deposits were not posted for three consumers, although the amount was reflected in the balance for one of them.

Recommendation

1. Comply with established policies and procedures to properly account for and safeguard consumer funds. Among other things, Bernard Fineson should:

   - Maintain required supporting documentation and store receipts for consumer cash account and personal allowance account transactions. Supporting documentation should be properly completed, approved and reviewed.

   - Require consumers who are capable of making their own purchases to sign the withdrawal form as proof they received the funds.

   - If change is left over from a purchase, or if an expected purchase is not made, ensure that the funds are re-deposited into the consumer's account within the required time frame.

   - Perform monthly reviews of personal allowance account transactions.

   - Correct all balance errors on consumer personal allowance account ledger cards.

OVERTIME AND EMPLOYEE ATTENDANCE

Controls over overtime and employee attendance are important to provide reasonable assurance that employees receive correct reimbursement for time actually worked. According to the New York State Payroll System (PaySR), Bernard Fineson's overtime costs totaled $1.79 million for the period April 1, 2000 through November 14, 2001. To determine the adequacy of controls relating to overtime and employee attendance, we obtained a PaySR database of all overtime checks issued to Bernard Fineson employees for the period April 1, 2000 through November 14, 2001. In total, PaySR issued 11,455 overtime checks for Bernard Fineson employees for the period. We randomly selected 50 of the 11,455 checks to determine whether the checks were supported with the required documentation, such as properly-completed time records and proper approvals. We also randomly selected 5 of the 15 group homes and observed employees signing in and out during a shift change. We then compared our observations with the times recorded on these employees' official time records.

We determined that controls relating to the documentation of overtime, as well as controls over employees signing in and out at the group homes, need improvement. Consequently, there is an increased risk that employees do not receive the correct reimbursement for time actually worked.

Overtime

Bernard Fineson uses three official forms to track and document time worked by its employees. Those forms are a Daily Attendance Record used by employees to sign in and out, a 28-day Time and Accrual Record that employees use to summarize their time and attendance over the period, and a Payroll Change Report used by the Bernard Fineson Payroll Department to process the number of hours of overtime worked. All three forms should be properly prepared, approved by the employee's supervisor and reconciled independently before overtime payment is processed. Bernard Fineson's procedures state that the Human Resources Office and the Business Office each share the responsibility of ensuring that the official records have correct computations and that they reconcile with each

other with respect to time worked. Procedures also require that overtime be authorized in advance.

In our review of the 50 overtime checks (which totaled $8,742 for 356.5 hours of overtime earned on 75 days), we found that for 39 checks, the documentation to support the checks was not properly completed. Therefore, there is no assurance that employees received correct reimbursement for time actually worked. The following are examples of the types of problems that we found (some of the 39 overtime checks had more than one problem):

- For 12 checks, representing 13 days when overtime was paid, there was a total of 14.75 hours of overtime that, according to the sign-in/out times recorded on the employees' Daily Attendance Records, should not have been paid. For example, on one day, the employee's Daily Attendance Record did not indicate that any overtime was worked. The employee signed in at 7:30 a.m. and signed out at 4:00 p.m., a regular eight-hour workday, but was paid for four hours of overtime.

- For ten checks, the 11 corresponding Daily Attendance Records did not support the number of hours of overtime paid, because the column in which the number of overtime hours worked should be recorded was left blank. This represented a total of 52.5 hours in overtime on 11 days. For example, for one check, five hours of overtime were earned on one day, but there were no overtime hours written in the appropriate column of the Daily Attendance Record. Therefore, the overtime payments might have been in error.

- For 11 checks, the 28-day Time and Accrual Records had no notation by the employee for hours worked in the overtime column as required. This represented a total of 37.75 hours in overtime earned on 12 days. For example, one check included payment for eight hours of overtime earned on one day, yet those eight hours were not recorded on the 28-day Time and Accrual Record. Therefore, there is no assurance that the employees were properly paid.

- For eight checks for overtime earned on eight days, there was a total of 6.5 hours of overtime that, according to the

sign-in/out times recorded on the employees' Daily Attendance Records, should have been paid but was not. For example, on one day, the Daily Attendance Record indicated that the employee worked an extra shift from 3:30 p.m. to 11:30 p.m., amounting to 7.5 hours after allowing for a meal break. However, the employee was paid for only 5.5 hours in overtime.

- We noted instances where time records were not properly signed. For 12 checks, the same employees who had worked the time approved the 15 corresponding Daily Attendance Records. Proper internal controls require an independent person to verify the attendance records. For one of these checks, the employee did not sign the 28-day Time and Accrual Record for the corresponding 28-day period. For this check, there is no assurance that the employee had made all necessary entries and corrections before submitting his record. In addition, when we reviewed the support for the overtime paid for a thirteenth check, we noted that there was no supervisor's signature on the 28-day Time and Accrual Record for the 28-day pay period ended August 22, 2001.

- For 11 checks, the overtime earned on the 14 corresponding days was incurred because of a scheduled absence or attendance at a training session or meeting. However, for ten of the checks representing 13 days of overtime, there was no documentation of the required pre-approval of the supervisor. The eleventh check was pre-approved. Overtime should be pre-approved to ensure there is a need for such overtime.

Controls over Employee Attendance

Bernard Fineson should provide the necessary oversight to provide reasonable assurance that employees at the group homes properly record their sign-in/out times on their Daily Attendance Records. Otherwise, there is an increased risk that employees will not receive the correct reimbursement for the actual time they have worked.

We visited group homes 4, 5, 7, 10, and 12 and observed employees signing in and signing out during shift changes. We noted the following:

- At Group Home 4, one employee left for the day without signing out or entering the sign out time on the Daily Attendance Record.

- At Group Home 5, one employee had already signed out and entered the time for the end of her shift on the Daily Attendance Record, even though her shift was not over for another one hour and forty-five minutes.

- At Group Home 10, when we arrived at 3:20 p.m., two employees (one of whom was the supervisor who approves the Daily Attendance Records) had already signed out and left. However, they had recorded 3:30 p.m. as their sign out time.

Bernard Fineson therefore needs to increase its oversight of employee time and attendance practices at the group homes.

Recommendations

2. Independently reconcile the Daily Attendance Records with the 28-Day Time and Accrual Records and Payroll Change Reports and resolve discrepancies.

3. For the employees in our sample, determine whether correct overtime payments were made and make adjustments in such payments if appropriate.

4. Ensure that all overtime is pre-approved and is supported by accurate time records.

5. Ensure that time records are signed by each employee, and are independently reviewed and signed.

6. Improve oversight at group homes to provide reasonable assurance that employees accurately record their sign-in/out times.

PURCHASING

The Bernard Fineson Purchasing Department is responsible for buying all goods and services for its campus locations and group homes. State guidelines as well as Bernard Fineson's own Business Office guidelines (collectively referred to as purchasing guidelines) set forth the purchasing practices that Bernard Fineson must follow.

Discretionary purchases are those that do not require formal bidding because their dollar value falls below the State guidelines' competitive bidding threshold, and the items are not available from a preferred source or State centralized contract. However, purchasing guidelines require Bernard Fineson to ensure, among other things, that discretionary purchases are justified and approved, a reasonable price is obtained, and goods and services paid for are actually received.

During the period April 1, 2000 through December 21, 2001, Bernard Fineson issued 6,370 purchase orders totaling approximately $4 million. Of the total purchase orders issued, 3,908 were discretionary purchases under $2,500, totaling $1.9 million, and 55 were discretionary purchases of $2,500 or more, totaling $320,000. Discretionary purchases of $2,500 or more must conform to more stringent guidelines than those of lesser amounts.

To determine whether Bernard Fineson complied with purchasing guidelines, we randomly selected 20 discretionary purchase orders of $2,500 or more and reviewed them for compliance with the purchasing guidelines. We also judgmentally selected 21 incidences of multiple purchase orders, that individually were for under $2,500, issued to the same vendors and reviewed them for evidence of split ordering, i.e., the division of a single purchase into multiple orders to avoid having to seek competition.

We found that Bernard Fineson has not adequately followed the purchasing guidelines. Consequently, there is an increased risk that Bernard Fineson is making purchases that are not justified or authorized and is not obtaining the most reasonable price.

Compliance with Discretionary Purchasing Guidelines

For discretionary purchases of $2,500 or more, the purchasing guidelines require: written justification that such purchases are necessary; three price quotes to provide assurance that reasonable prices are obtained; management approval to ensure that purchases are appropriate; and documentation that items paid for have been received. Planned purchases for amounts of at least $5,000 but less than $15,000 must be advertised quarterly in the Contract Reporter to alert vendors of purchase opportunities.

Our review of the 20 randomly selected purchase orders for amounts of at least $2,500 found that Bernard Fineson did not adhere to the purchasing guidelines for 11 of the 20 purchase orders (some purchases had more than one problem) as follows:

- For five purchases (totaling $21,867), there was no written justification for the purchase.
- For 15 purchases requiring quotes, three quotes (totaling $8,780) were not obtained.
- Five purchases (totaling $31,065) were missing one or more approval signatures.
- Two purchases (totaling $18,347) out of six purchases were not advertised in the Contract Reporter as required.
- For three of 19 purchases (totaling $8,780), there was no evidence that the goods or services had been received.

Split Ordering

Purchasing guidelines require Bernard Fineson to consider the reasonably foreseeable total annual expenditures for a commodity or service in determining whether dollar thresholds should be applied and formal competitive bidding is necessary. Agencies should not attempt to use multiple purchase orders when making large-dollar purchases with the intent of circumventing more stringent purchasing requirements. We judgmentally selected 51 purchase orders issued to 21 vendors and reviewed them for evidence of split ordering. We noted that nine of the purchase orders totaling $9,375 to three vendors

were indicative of split ordering. Each of these three vendors had multiple purchase orders on the same day that exceeded $2,500 in total. Two purchase orders totaling $2,700 were for design and installation of a fire alarm system; two purchase orders totaling $2,516 were for a service agreement for dishwashers; and five purchase orders totaling $4,160 were for materials from the same vendor to be used in renovating Group Home 16. We believe that these purchases should have been combined, which would have required adherence to more stringent purchasing requirements. For these purchases, there is no assurance that the selection of the vendor resulted in a reasonable price.

Recommendations

7. Comply with State and Bernard Fineson guidelines for discretionary purchases of $2,500 or more. Among other things, require:

   - written justification for each purchase;
   - three price quotes;
   - management approval;
   - purchases for amounts of at least $5,000 but less than $15,000 be advertised quarterly in the Contract Reporter; and,
   - documentation that items paid for have been received.

8. Ensure that purchasing requirements are not avoided by dividing a single purchase among several purchase orders.

EQUIPMENT INVENTORY

Bernard Fineson uses OMRDD's automated Equipment Inventory System to record the acquisition, movement and disposal of items. Both OMRDD's procedures and Bernard Fineson's own internal procedures require that all equipment purchases with a value of $200 or more be recorded on its Equipment Inventory System and labeled with a "Property of Bernard Fineson Developmental System" inventory control tag, and that equipment purchases with a value of $500 or more be tagged with the name of the agency and an inventory number. Equipment items include furniture, appliances, electronic equipment and medical devices. In addition, all high-theft equipment, regardless of purchase price, must be recorded on the system and tagged in the same manner as items valued at $500 or more.

The Business Officer is responsible for the overall system of equipment inventory control. In support of this function, Bernard Fineson must appoint a qualified employee as Property Manager. Staff members are required to notify the Property Manager of all transfers and disposals of property so that the Property Manager can accurately maintain the equipment inventory records. Equipment control procedures also require that a physical inventory be conducted annually for all equipment and that a record of lost or unaccounted items be submitted by the Property Manager to the Business Officer for approval to remove the items from the equipment records.

To determine whether controls over equipment inventory were adequate, we obtained a listing of equipment as of November 27, 2001 from the Equipment Inventory System. With the assistance of facility representatives, we attempted to locate and identify all 380 equipment inventory items listed at six randomly selected group homes with both non-numbered property labels and numbered tags. We also randomly selected 50 of the 366 equipment inventory items with numbered tags listed as located in residential living units on the two campuses and attempted to physically locate and identify the sampled equipment.

At the six group homes we visited, we were unable to locate 61 (16 percent) of 380 items, including a reach-in freezer, sofas, loveseats, a washing machine, vacuum, photocopier and printer. Of the 319 items that we were able to locate, 282 (88 percent) did not have the required inventory control tag affixed to them. Further, we noted that 83 high-theft items such as computers, printers, fax machines and microwaves were not recorded on the equipment inventory listing.

For the 50 equipment items we selected to verify at the residential living units on the two campuses, we were unable to locate 36 (72 percent) items, such as sofas, loveseats, a dining room table, respiratory suction machines, an examining table, a medication cart, a photocopier, dryer and printer. Of the 14 items we were able to locate, three did not have an inventory control tag affixed to them.

In addition, Bernard Fineson had not taken an annual physical equipment inventory since March 1996. Physical inventories are an important part of maintaining adequate control over equipment.

Officials at the group homes we visited explained that some of the items we could not locate had been disposed of, moved, or were in storage and no longer in use. They were not aware of the requirement to inform the Property Manager of changes in the status of this equipment. In addition, we found a general lack of knowledge by responsible officials concerning equipment control policies and procedures. When we asked the Property Manager and the responsible Assistant Business Officer for official written procedures for equipment control, they told us that there were none, even though we were able to locate them with the assistance of the Business Officer. When equipment control policies and procedures are not disseminated to the responsible staff and monitored for compliance, an environment is created wherein equipment assets are not adequately safeguarded and accounted for.

Recommendation

9. Strengthen controls over equipment by:

- Conducting an investigation into the missing inventory items we identified.

- Taking annual physical inventories. As part of the inventory process, ensure equipment items are properly tagged and accounted for, including high-theft items. Investigate discrepancies, and adjust records accordingly.

- Requiring all transfers and disposals of equipment items to be done in compliance with established policy and procedures to maintain the accuracy of the inventory records.

- Distributing equipment control policies and procedures to responsible staff, and monitoring compliance with such policies and procedures.

MAJOR CONTRIBUTORS TO THIS REPORT

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STATE OF NEW YORK
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November 8, 2002

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

Dear Mr. McClune:

The Office of Mental Retardation and Developmental Disabilities has reviewed the Office of the State Comptroller's draft audit report No. 2000-S-60 entitled: Bernard Fineson Developmental Disabilities Services Office Selected Financial Management Practices.

* Note 1

Our responses to the recommendations contained in this report are attached for your consideration. Included in our responses are corrective actions that we have implemented.

Thank you for the opportunity to comment.

Sincerely,

Jan Abelseth
Deputy Commissioner
Division of Quality Assurance

Attachment
cc: Mr. Maul
Ms. Wheeler

NOTE: Report number is incorrect.
It should be: 2001-S-60

The Office of Mental Retardation and Developmental Disabilities (OMRDD) Response to the Office of the State Comptroller's (OSC) Draft Audit Report Entitled: Office of Mental Retardation and Developmental Disabilities Bernard Fineson Developmental Disabilities Services Office Selected Financial Management Practices 2001-S-60

CONSUMER FUNDS

When referring to a residence, it is important to note the type of the residence, since they can come under different procedures and review. For example, on page 4 of the draft report, it states that "... Withdrawals are made to replenish cash in the consumers personal allowance accounts maintained at the residences...Supporting documents and store receipts are maintained at both the Business Office and the residence depending upon the transaction." Also, page 4 of the report states "...We also found that personal allowance account ledger cards and receipts...were not maintained at all for consumers which resided on the campus"... The residential units on campus are not provided funds to replenish personal allowance accounts, and therefore are not required to maintain ledger cards. Consumers residing on the campus are close to the Business Office and therefore have effective/ready access to their funds; the Client Cash System, with its transaction history, is in effect the personal allowance ledger. We suggest that OSC consider rewording certain statements when preparing the final audit report.

* Note 2

Recommendation #1

In response to the recommendation by OSC, Bernard Fineson DDSO has taken or will take the following actions to enhance policies and procedures over consumer funds:

a) Our Cashier staff will be advised that if a 73a or 174 form (forms used for withdrawing and documenting the use of consumer funds) is not completely filled out, including all of the appropriate approvals, they are to return the form to the requestor for proper completion. The ABO/Fiscal will send out a memo to confirm this requirement to the Cashier staff and to all staff who request Consumer cash. This memo will also remind Cashier staff to maintain supporting cash request documents and purchase receipts on file. This memo will also include the following instructions to Cashiering: when money is returned, a cash receipt number will be written on the 73A or 174, and the purchase receipts will also be attached. The receipts and returned funds together must total the amount disbursed. Finally, this memo will add a procedure for the campus ward staff whereby "weekend spending" will be accounted for with store receipts, or Consumers' initials on the 174 form for the Consumers who are capable of spending their own funds. Estimated Completion Date: November 2002.

b) The ABO/Fiscal has changed the follow-up procedure for obtaining receipts and unused funds in a more timely fashion. The Cashiering Office sends out a list every two weeks to the Units with a list of disbursements lacking receipts. If receipts aren't forwarded by the next report, the Treatment Team Leader is notified. If there is still no response, the Cashier Office will notify the appropriate Deputy Director. This action was initiated in March 2002 and is ongoing.

* See State Comptroller's Notes, Appendix C

c) Bernard Fineson has already taken the following actions to improve controls over consumer funds maintained by Family Care Providers (Providers):

- The Family Care Coordinator sent a letter in May 2002 to advise all Providers of the importance of maintaining accurate ledger sheets and receipts. The Home Liaisons in July 2002 also trained the Providers in the use of a revised Ledger Sheet.
- The Family Care Coordinator has reminded the Home Liaisons to review the contents of the ledgers, assure that the computations and the cash on hand are accurate, that all balance errors are corrected, and that the Liaison will sign off on the ledger during their monthly visit. The Family Care Coordinator completed in June 2002 providing training sessions for the Home Liaisons.
- The Family Care Coordinator has inaugurated sample checks to see that the reviews are being performed monthly by the Home Liaisons, and that they are following up on any discrepancies found. The checks are being performed by the Home Liaison Supervisors, the Family Care Coordinator, and the Family Care Certification Team. This was initiated in June 2002 and is ongoing.

d) The Group Home Administrator will send to the Group Home Team Leaders a memo to remind them to check the consumers' personal allowance ledgers maintained in the Group Homes, on a monthly basis, and to ensure that these are accurate (or that corrections are made) and up-to-date. Estimated completion Date: November 2002. In addition, a process will be looked into, to provide a quality assurance review to ensure that the directions/contents of the memo are followed up on.

OVERTIME AND EMPLOYEE ATTENDANCE

Recommendation #2

This recommendation was addressed in September 2002. Bernard Fineson DDSO has a Time & Attendance training module, addressing our existing policy and procedure, which is used to train clerical and supervisory staff. This is ongoing and has been reinforced. The Director of Human Resources has also added a step to policy and procedures, whereby copies of the Daily Attendance Records will be sent by the Supervisors who prepare the Payroll Change Reports, along with these Payroll Change Reports, to the Treatment Team Leaders and Department Heads who will review the Daily Attendance Records against the Payroll Change Reports in order to verify their accuracy and agreement. In addition, the Business Office has an ongoing system of sample checking the Time and Accrual Record entries against the overtime submitted on the Payroll Change Report forms, with corrective action resulting from their findings.

Also, OMRDD is in the process of developing/preparing a new Time Information Management Electronic (TIME) system; the system pilot is scheduled to be implemented during the first quarter of FY 2003-04. A major underpinning of the TIME system, is that exception payments (overtime, extra time, etc.) are produced by what is electronically recorded on the 14-

day time sheet, and that the result of what is on the time sheet will generate earn codes. Submission of overtime payments will not be independent of the time sheet.

Recommendation #3

The Director of Human Resources will obtain the sample listing from the Business Officer, and compare the dates and hours paid to the information posted on the appropriate attendance records. The Assistant Business Officer/Fiscal will then be provided a listing of any overtime payment corrections indicated to be necessary from this comparison, who will then ensure that Payroll processes the required corrections. Estimated completion date: January 31, 2003.

Recommendation #4

In all cases where a need for overtime is identified in advance, written pre-approval to use overtime will be obtained. In the case of Direct Consumer Care (including Nutritional Services), it is understood that certain health and safety staffing minimums must be maintained at all times. If a Unit falls below the staffing minimums, there is a standing authorization for using overtime to cover these situations, once the DDSO established policies and procedures for seeking alternatives to incurring overtime are followed. A memo will be sent out by the Director to all Units and Departments, to remind staff of these policies and clarify them. Estimated completion date: November 2002. With respect to the accuracy of time records, please see our response to Recommendation #2, above.

The TIME system will also accommodate this recommendation in a future phase-in. A master scheduler will be developed for the system which will facilitate supervisors' and management's efficient deployment of the workforce.

Recommendation #5

See Response to Recommendation #2. The training module also instructs the supervisors that Time and Accrual Records must be signed and dated by the employee and the supervisor. The Director issued a memo to all Treatment Team Leaders, Department Heads and Supervisors reiterating our policy that supervisors cannot sign in and out on the same Daily Attendance Record as their subordinates. Completed: May, 2002.

Also, when the new TIME system is implemented, employees who record their daily SISO on an individual basis will be entering or will have entered the SISO values electronically. The supervisor will be required to approve the 14-day timesheet or forward it to Human Resources (HR) if necessary for that office's approval. A future enhancement of the TIME system will accommodate a group SISO process.

In addition, under the TIME system, the employee will either (a) sign-off on a hard copy of the 14-day timesheet that will include all hours worked or (b) sign-off electronically in the system. The supervisor will always be required to sign-off electronically or forward to the HR

Office (if appropriate) and then HR will sign-off as appropriate. All electronic attestations will be accompanied by a signature line reflecting the user's name and the system date.

Recommendation #6

See our Response to Recommendation #5, above. The Director's memo also reminded the supervisors (of all Units and Departments, including the Group Homes) that they are responsible for monitoring the actual arrival and departure times of their staff, and for ensuring that the actual times are recorded on the Daily Attendance Records. Completed: May, 2002.

PURCHASING

Throughout the audit process, OMRDD has worked with OSC staff to review and respond to earlier findings and provide supporting documentation where appropriate. In several cases the comments and/or materials that OMRDD provided to OSC were neither recognized nor incorporated in this draft report. Before addressing OSC's recommendations, we wish to reiterate these comments; we anticipate that the comments will be carefully reviewed by OSC before the issuance of the final audit report.

Second bullet on page 14 of the draft audit report:

One of the purchases was for Summer Camp for some Consumers. Each camp offers unique programs designed to handle the specific needs of different types of our Consumers and give them a valuable camping experience. Therefore, it is not possible to obtain quotes from camps for competitive pricing, given our special requirements.

* Note 3

As a result, we suggest the following wording change: For 15 purchases requiring quotes, **Two** (Three) quotes totaling **$5,780** ($8,780) were not obtained.

* Note 3

Third bullet on page 14 of the draft audit report:

Of the five sample purchases missing the appropriate signature: One purchase Sample #12 was approved by the Business Officer for the Deputy - the Assistant Business Officer/Support and the Business Officer were authorized by the Deputy Director to sign Administrative approval for the Support Departments. In addition, the Principal Storekeeper - a Department Head, also signed and thus there were two successive levels of approval prior to the fiscal signature. Another purchase was approved by the Howard Park Unit Administrator, who is considered to be at the "Deputy" level for purposes of purchasing approval. Finally, another purchase was made by the Human Relations Committee, under the auspices of the Director. It was signed by the Committee Chairperson as Department Head and it was also Administratively approved by the Director.

* Note 4

As a result, we suggest the following wording change: **Two** (five) purchases totaling **$6,442** ($31,065) were missing one or more approved signatures.

* Note 4

Fourth bullet on page 14 of the draft audit report:

One of the two purchases cited was for a repair to an elevator at our Howard Park Unit. Requests for quotes were sent out in March, 2001. We were then following a procedure of putting notice of anticipated bids in this range in the Contract Reporter via Quarterly reporting to our Central Office. However, this was not an anticipated need at the time we had to file our report for the first quarter of 2001, and this job came up as an unexpected urgent matter: one of three elevator cars required overhauling, while a second one was frequently failing. Since preliminary estimates for the job were under $15,000, we obtained price quotes and, as the matter was urgent, we awarded to the lowest responsible and responsive "bidder", and went ahead with the repair.

* Note 5

As a result, we suggest the following wording change: **One** (two) purchase totaling **$8,600** ($11,000) was not advertised in the Contract Reporter as required.

* Note 5

Recommendation #7

In response to the recommendation by OSC, Bernard Fineson DDSO has taken or will take the following actions to enhance policies and procedures related to purchasing:

a) In July 2002, the Business Officer and Assistant Business Officer/Fiscal issued a memo to all appropriate staff to remind them about, and reinforce, the purchasing requirements related to discretionary purchases of $2,500 or more. More specifically, the memo stressed, among other things: the requirement for written justification for all such purchases; the requirement to obtain at least three price quotes for all such purchases; and the requirement for management signatures indicating approval of the purchase.

b) In July 2002, the Business Officer and Assistant Business Officer/Fiscal issued a separate memo to all appropriate staff to remind them about the requirement to advertise in the Contract Reporter, quarterly, for all anticipated procurements between $5,000 and $15,000. The memo emphasized to staff, to try to anticipate their annual needs for various commodities as much as possible, so advertising in the Contract Reporter will take place where appropriate.

c) When goods are received in the Storehouses, Daily Receiving Reports are prepared and forwarded to accounts payable by the Storekeepers. When goods and services are received outside the Storehouses, the accounts payable unit will obtain a signed receipt or confirmation of service form from the appropriate staff prior to processing payment. The Assistant Business Officer/Fiscal will send the accounts payable staff a memo to remind them to get such written documentation of delivery, and not to accept phone confirmation. Estimated completion date: November 2002.

Recommendation #8

Purchases have never knowingly been split in order to circumvent competitive bidding, nor will the practice be tolerated at the DDSO. Whenever possible, the total amount of a

* See State Comptroller's Notes, Appendix C

purchase is determined in advance, and we endeavor to take the appropriate purchasing steps (quotes or bids etc.) - or obtain appropriate documentation for emergency situations.

The Business Officer and the Assistant Business Officer/Fiscal sent out a memo in July 2002 to all appropriate staff, as a reminder for them to try and anticipate their full needs for various commodities in advance (see response to recommendation #7), and to submit these anticipated needs on one Purchase Request. This will help to ensure that based on the total order, the appropriate purchasing practice will be applied.

In addition, as part of the OMRDD's Internal Control Review System, a new initiative/procedure will be implemented whereby there will be a periodic post review of purchases, to see where purchasing practices could be enhanced/additional appropriate competitive procurement opportunities exist.

EQUIPMENT INVENTORY

Recommendation #9

In response to the recommendation by OSC, Bernard Fineson DDSO has taken or will take the following actions to enhance policies and procedures related to controls over equipment:

a) In April 2002, the Business Officer and the Assistant Business Officer/Support updated the Equipment Inventory System procedures, and reissued these procedures to all appropriate DDSO staff. These updated Procedures specify the responsibilities of each participant in the equipment inventory processes, so that all appropriate staff are informed about what is expected of them with respect to acquisition, custody, transfer, and disposal of equipment, as well as maintenance of the computerized Equipment Inventory Data Base.

b) The updated Equipment Inventory Procedures require a complete annual physical inventory, with the involvement of the Unit Managers. This includes noting and explaining items which have been disposed of but may still be on the Equipment Inventory, as well as items acquired which may not be on the Equipment Inventory. These are reported to the Property Manager, who: updates the Equipment Inventory accordingly, and sends tags or stickers as appropriate, for the Unit Managers to place on the appropriate items. These steps were completed in October 2002.

(c) The updated Equipment Inventory Procedures require the Unit Managers to use the Property Ledger Form to notify the Property Manager of all transfers and disposals of equipment items; and the Property Manager to update the Equipment Inventory from these transaction documents.

(d) The updated Equipment Inventory Procedures require the Property Manager to also perform physical inventory reviews, on a sample basis, to determine the compliance of all participants in the Equipment Inventory System with the established procedures. This is carried on throughout the year. The Property Manager must conduct an in-depth review of any Unit's Equipment Inventory, where significant deficiencies are found, and report results

in writing to the Assistant Business Officer/Support and the Business Officer, who then determine if findings must be reported to Administration for further action. The Equipment Inventory will be updated as necessary from these reviews as well. This was initiated/completed in May 2002.

(e) The Business Officer and the Assistant Business Officer/Support will look into the missing inventory items identified by the OSC Auditors. Estimated completion date: January 2003.

State Comptroller's Notes

1. The correct report number is 2001-S-60.

2. We amended our report to delete reference to the maintenance of personal allowance account ledger cards for consumers who reside on campus. However, we assert that the Bernard Fineson campus did not adequately control disbursements made for weekend spending, because there was no supporting documentation retained to account for these disbursements. For those consumers who are not of capable of spending their own funds, purchase receipts should be provided and maintained. For those consumers who directly receive the withdrawals and make their own purchases, we recommend that Bernard Fineson officials should have the consumers sign the withdrawal form as evidence that the funds were disbursed. We have modified Recommendation 1 accordingly. In this regard, in their response to this report, OMRDD/Bernard Fineson officials stated that they will add a procedure for the campus ward staff to account for weekend spending with store receipts or consumers' initials on the appropriate form.

3. We saw no documentation in the Bernard Fineson files that supports the contention that the selected summer camp offered unique programs. Hence, we have not modified the report.

4. We saw no documentation in the Bernard Fineson files, nor did officials provide any documentation subsequent to the completion of our fieldwork, that the cited individuals had signatory rights for the purchasing process. Hence, we have not modified the report.

5. We reviewed the purchase request and related documents, but saw no support for Bernard Fineson's contention that this purchase was "an unexpected urgent matter." Hence, we have not modified the report.