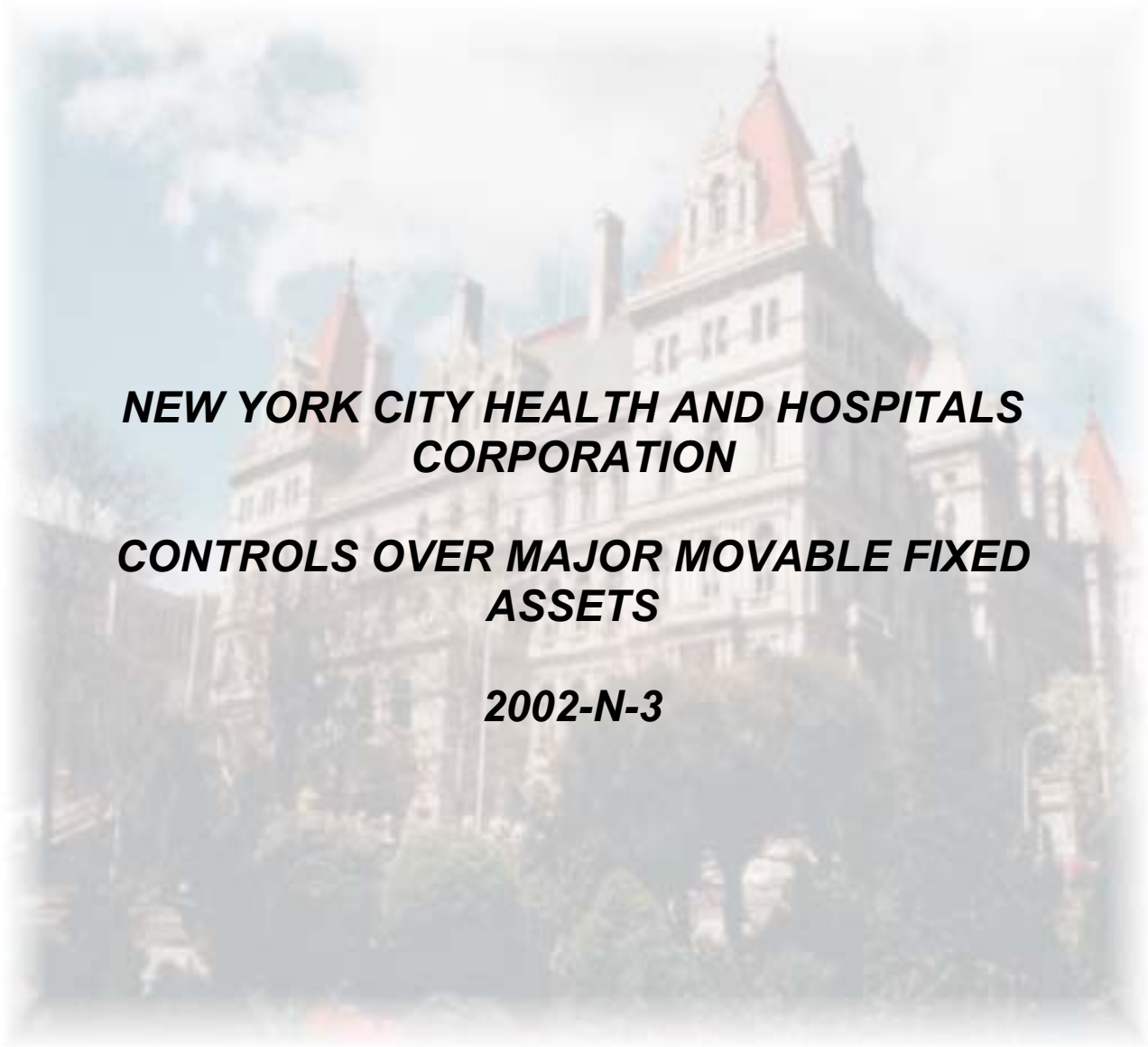
# *A REPORT BY THE NEW YORK STATE OFFICE OF THE STATE COMPTROLLER*

**Alan G. Hevesi**
**COMPTROLLER**



# *NEW YORK CITY HEALTH AND HOSPITALS CORPORATION*

# *CONTROLS OVER MAJOR MOVABLE FIXED ASSETS*

***2002-N-3***

**DIVISION OF STATE SERVICES**

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**Alan G. Hevesi**
**COMPTROLLER**

**Report 2002-N-3**

Benjamin K. Chu, M.D., M.P.H.
President and Chief Executive
New York City Health and Hospitals Corporation
125 Worth Street
New York, NY 10013

Dear Dr. Chu:

The following is our audit report on the New York City Health and Hospitals Corporation's controls over major movable fixed assets.

This audit was performed pursuant to the State Comptroller's authority as set forth in Article V, Section 1 of the State Constitution; Article II, Section 8 of the State Finance Law; and Article III of the General Municipal Law. Major contributors to this report are listed in Appendix A.

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

October 1, 2003

# EXECUTIVE SUMMARY

# NEW YORK CITY HEALTH AND HOSPITALS CORPORATION

# CONTROLS OVER MAJOR MOVABLE FIXED ASSETS

## SCOPE OF AUDIT

The New York City Health and Hospitals Corporation (HHC) provides comprehensive medical, mental health and substance abuse services to New York City residents regardless of their ability to pay. Through 7 regional health care networks, HHC operates 11 acute care hospitals, 4 long-term care facilities, 6 diagnostic and treatment centers, a certified home health agency and more than 100 community-based clinics. In addition, HHC operates various other facilities and programs that provide services in New York City.

HHC's major fixed asset categories include buildings, fixed equipment, major movable equipment (or fixed assets), land, land improvement and construction in progress. Major movable fixed assets generally refer to assets such as medical and office equipment that are not permanently attached and can be moved from place to place. These assets include defibrillators, fetal monitors and computers. HHC's inventory control system for fixed assets is known as the Fixed Assets: Millennium System (FA:M). The objective of FA:M is to provide HHC with all of the information necessary for tracking and reporting fixed assets, including fixed asset additions, deletions and transfers. As of March 31, 2002, the acquisition cost of all fixed assets recorded on FA:M was $4 billion. After accumulated depreciation, the net book value of the fixed assets was $1.4 billion, or about 35 percent of acquisition cost.

For the period July 1, 1999 through March 31, 2003, our audit addressed the following question relating to HHC's controls over major movable fixed assets:

- Does HHC have adequate controls to provide reasonable assurance that all major movable fixed assets are accurately recorded and properly accounted for?

## AUDIT OBSERVATIONS AND CONCLUSIONS

Based on our analysis of the FA:M system, we determined that assets were not tagged, retired assets were included on the inventory record, asset

retirements were not adequately documented, asset locations were not recorded or were not accurate, and assets were unaccounted for. HHC officials acknowledge that improvements can be attained in the FA:M system and have taken steps to improve the tagging, reporting and monitoring of major movable fixed assets.

We selected random samples comprising a total of 300 major movable fixed assets at four acute care hospitals to assess the accuracy and completeness of the information on FA:M. We attempted to locate each of the 300 sampled assets. We were able to locate and positively identify just 108 assets we looked for. We located another 43 assets, but could not positively identify them since they did not have an identification tag, as required. For the remaining 149 assets, we determined the following: for 46 assets, officials provided adequate documentation that the assets had been retired; for 30 assets, officials provided only incomplete documentation that assets had been retired; for 56 assets, officials stated their belief that the assets had been retired, but could provide no documentation to support their assertion; and, for 17 assets, officials could not explain the whereabouts of these assets. In addition, we determined that HHC does not perform periodic physical inventories nor use effective alternative procedures to determine the accuracy and completeness of FA:M. (See pp. 5-6)

Although HHC has policies for the proper maintenance of FA:M, we found that HHC management has not always enforced these policies, resulting in weak controls over major movable fixed assets. For example, inventory records should accurately reflect the location of assets so that equipment can be readily found when it is needed. HHC policy requires that asset locations be accurately recorded on FA:M. We found that most of the 300 assets in our sample either did not have a location recorded on FA:M or the location recorded was not accurate. We also noted noncompliance with HHC's policies relating to the classification of fixed asset transactions and the tagging of assets. (See pp. 6-10)

Our report contains three recommendations to improve controls over major movable fixed assets.

## *COMMENTS OF OFFICIALS*

HHC officials agree with the report's three recommendations and indicated actions taken or planned to implement them. HHC officials also disagreed with certain aspects of the report. A complete copy of HHC's response is included as Appendix B. Appendix C contains State Comptroller's Notes, which address matters of disagreement included in HHC's response.

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# INTRODUCTION

## Background

The New York City Health and Hospitals Corporation (HHC) provides comprehensive medical, mental health and substance abuse services to New York City residents regardless of their ability to pay. Through 7 regional health care networks, HHC operates 11 acute care hospitals, 4 long-term care facilities, 6 diagnostic and treatment centers, a certified home health agency and more than 100 community-based clinics. In addition, HHC operates a health maintenance organization through its subsidiary MetroPlus and also provides health and mental health services in certain of New York City's correctional facilities, homeless shelters and public schools.

As used in its financial statements, HHC's major fixed asset categories include buildings, fixed equipment, major movable equipment (or fixed assets), land, land improvement and construction in progress. Fixed equipment refers to assets such as escalators that are permanently attached or fixed to the wall, floor or ceiling. Major movable fixed assets generally refer to assets such as medical and office equipment that are not permanently attached and can be moved from place to place. These assets include defibrillators, fetal monitors and computers.

HHC's inventory control system for fixed assets is known as the Fixed Assets: Millennium System (FA:M). The objective of FA:M is to provide HHC with all of the information necessary for tracking and reporting fixed assets, including fixed asset additions, deletions, transfers, etc.

HHC capitalizes fixed asset purchases with a unit cost of at least $500 and a useful life of at least two years. HHC also capitalizes repairs valued at more than $500 if the repair extends the fixed asset's estimated useful life by at least two years. HHC policy requires that assets costing more than $1,000 and purchased after July 1, 1998 be tagged for identification purposes.

As of March 31, 2002, the acquisition cost of all fixed assets recorded on FA:M was $4 billion. After accumulated

depreciation, the net book value of the fixed assets was $1.4 billion, or about 35 percent of the acquisition cost.

## *Audit Scope, Objective and Methodology*

We audited selected aspects of HHC's controls over major movable fixed assets for the period July 1, 1999 through March 31, 2003. The objective of our performance audit was to determine whether HHC has adequate controls to provide reasonable assurance that all major movable fixed assets are accurately recorded and properly accounted for.

To accomplish our objectives, we interviewed managers and staff at HHC's central office and at selected acute care hospitals. We also reviewed HHC's policies, directives and procedures. In addition, we selected random samples comprising a total of 300 major movable fixed assets, observed inventory-related operations at selected hospitals and attempted to locate assets. We obtained a download from FA:M of the population of major movable fixed assets at HHC's 11 acute care hospitals as of March 31, 2002. This population consisted of 119,226 assets with an acquisition cost of $872.7 million and net book value of $201.1 million. From this population, we excluded assets costing less than $1,000 because HHC policy does not require such items to be tagged. As a result, the population from which our sample was selected included 83,826 assets, with an acquisition cost of $847.2 million and book value of $189.5 million.

We used multistage sampling, with HHC's 11 acute care hospitals as the primary units and the major movable fixed assets costing at least $1,000 as the secondary units. We randomly selected 4 of the 11 acute care hospitals: Harlem, North Central Bronx, Elmhurst and Woodhull. The four hospitals included 27,514 of the 83,826 assets. We then randomly selected 75 assets from each of the four hospitals for testing. We categorized each hospital's assets into three strata based on acquisition cost, with the following defined ranges: $1,000 to $4,999; $5,000 to $9,999; and $10,000 and greater. For each of the four sampled hospitals, we tested 20 randomly selected items from the first stratum, 25 randomly selected items from the second stratum and 30 randomly selected items from the third stratum. With the assistance of hospital officials, we used asset information provided in a download from FA:M, purchase orders and invoices to determine whether the sampled

items were properly classified and could be located. We replaced sampled assets that we determined to be misclassified or where documentation was insufficient to determine whether the asset was properly includable as a major movable fixed asset. We also replaced assets that were properly classified when the identification and verification procedure could disturb hospital patients (e.g., occupied hospital beds).

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 HHC operations included within our audit scope. Further, these standards require that we understand HHC's internal control structure and its compliance with those laws, rules and regulations that are relevant to 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 to be audited. This approach focuses our audit efforts on operations that we identified through a preliminary survey as having the greatest probability for needing improvement. Consequently, by design, finite audit resources are used to identify where and how improvements can be made. Therefore, little audit effort is devoted to reviewing operations that may be relatively efficient or effective. As a result, our audit reports are prepared on an "exception basis." This report, therefore, highlights those areas needing improvement and does not address operations that may be functioning properly.

## *Response of HHC Officials to Audit*

We provided draft copies of this report to HHC officials for their review and comment. Their comments have been 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 HHC's response.

Within 90 days after final release of this report, we request that the President of the New York City Health and Hospitals Corporation report to the State Comptroller, advising what steps were taken to implement the recommendations contained herein, and where recommendations were not implemented, the reasons therefor.

# CONTROLS OVER MAJOR MOVABLE FIXED ASSETS

Organizations such as HHC buy and use equipment, such as major movable fixed assets, to deliver services and support administration. An effective inventory control system provides accurate, complete information regarding the location and status of equipment within an organization. To properly maintain the system, the organization needs to accurately record the location of equipment items, adjust the inventory records to account for any additions and deletions (including retirements) to the inventory, properly classify the equipment items for reporting purposes and affix an identification tag to the items when required. Periodic physical inventories, or effective alternative procedures, should be conducted to ensure that the inventory records are accurate and up-to-date.

HHC should adequately control its major movable fixed assets so that it can determine the location and status of important medical and administrative equipment as the need arises. HHC implemented FA:M to provide the necessary control over these assets. However, we found that FA:M does not contain accurate and complete information, and that HHC does not take the necessary steps to properly maintain FA:M. Consequently, FA:M does not constitute a complete and accurate record of HHC's major movable fixed assets.

## *Results of Inventory Tests*

We selected random samples comprising a total of 300 major movable fixed assets at four acute care hospitals to determine the accuracy and completeness of the information on FA:M. We attempted to locate each of the 300 sampled assets. We determined that management controls over major movable fixed assets were weak and, as a result, HHC could not account for many of the sampled items, as follows:

- We were able to locate and positively identify just 108 assets we looked for (36 percent of our sample). We located another 43 assets (14 percent of our sample), but could not positively identify them since they were not tagged.

- We could not locate 149 assets (50 percent of our sample). According to hospital officials, 46 of these assets had been retired, and they provided us with supporting documentation. According to hospital officials, another 30 assets were retired and discarded, and they provided some supporting documentation for each of these assets. However, the documentation was not complete. For the remaining 73 assets, hospital officials stated their belief that 56 of these assets had been retired, but could not provide any documentation to support this assertion. It should be noted that all 132 of these "retired" assets were still listed on FA:M as being available for use. HHC policy requires hospital staff to remove retired assets from FA:M and to properly document these transactions. Hospital officials could not explain the whereabouts of the 17 other missing assets. These 17 assets included such items as a motor vehicle, IV pumps and computers, and had a total acquisition cost of $166,369 and a net book value of $46,804.

The results of our tests show that FA:M does not contain accurate and complete information, and therefore cannot be relied on for the tracking and reporting of assets. HHC officials therefore need to investigate the items that are missing and unaccounted for, and update FA:M. We determined that HHC does not perform periodic physical inventories, nor use effective alternative procedures to determine the accuracy and completeness of FA:M. In our judgment, HHC officials need to take periodic inventories, or employ alternative procedures, to ensure that FA:M is reliable.

## *Need to Improve Inventory Practices*

HHC has policies for the proper maintenance of FA:M. Such policies relate to the recording of asset location, the classification of fixed asset transactions and the tagging of assets. We found that HHC has not enforced these policies, resulting in weak controls over major movable fixed assets, as detailed in the following sections of this report.

### Asset Locations Were Not Entered on FA:M or Were Inaccurate

Inventory records should accurately reflect the location of assets, so that equipment can be readily found when it is needed. The location of newly-purchased items should be promptly entered on FA:M, and transfers of equipment should be reflected on FA:M. HHC policy requires that asset locations be accurately recorded on FA:M.

We found that the location for 166 of the 300 assets in our sample (or 55 percent) had not been recorded on FA:M as required. (Despite the absence of this important information, we were able to find 54 of the 166 assets.) The results of our sample were confirmed by a second test of the inventory records. Using auditing software, we analyzed the population from which our sample was selected, which included 83,826 assets from 11 acute care hospitals. For 45,523 assets (54 percent), we found that the location of the assets was not listed on FA:M. These assets had a total acquisition cost of $526.6 million and book value of $33.5 million. HHC officials informed us that prior to December 1, 1995, hospital staff responsible for updating FA:M were able to circumvent the control requiring that the location of newly-purchased equipment be entered on FA:M. However, HHC officials stated that effective December 1, 1995, they implemented controls to ensure that equipment locations are entered on FA:M as required. Our audit test found that 40,739 of the 45,925 assets (89 percent) purchased prior to the new policy had no location shown, while 4,784 of the 37,901 assets purchased December 1, 1995 or later (13 percent) had no location shown. We note this result represents a substantial improvement since December 1, 1995, but that HHC officials need to further improve the completeness of FA:M as it relates to the location of assets.

We also found that asset locations on FA:M were often inaccurate, since they were not updated to reflect transfers of assets. Of the 134 assets in our sample that had a location noted on FA:M, we were able to locate 97 of them. However, only 15 of the 97 assets were at the locations indicated on FA:M.

### Misclassified Fixed Asset Transactions

Fixed asset transactions should be correctly classified into appropriate categories so that financial statements and notes are accurate and can be relied upon. For financial statement purposes, HHC policy requires assets costing at least $500 with a useful life of two years or more to be capitalized and recorded under one of four fixed asset categories: buildings, fixed equipment, major movable equipment (or fixed assets), and land and improvements. In addition, certain transactions should be included as part of a larger, related purchase. For example, software costs associated with a new computer system should be combined with the hardware and shown as a major movable fixed asset on HHC's records. Under other circumstances, software should be expensed.

We found that 34 of the 300 sampled assets (11 percent) with a total acquisition cost of $1.8 million and a net book value of $217,000 had been either incorrectly classified as major movable fixed assets or did not contain sufficient information on FA:M and the supporting purchase orders to document that the item selected for sample was a major movable fixed asset. As a result, we replaced these items in our sample in order to obtain a sample of 300 major movable fixed assets. However, this high rate of misclassified assets indicates the need for HHC to improve practices relating to the classification of assets. The following summarizes our findings:

- Nine of the items misclassified as major movable fixed assets may have been more properly classified as operating expenses. For example, at Woodhull Hospital, one transaction of $9,737 for professional services rendered should have been treated as an operating expense. We found instances where Harlem and Elmhurst Hospitals capitalized software, but did not document that this was the proper classification.
- Twenty-one items should have been classified within other fixed asset categories such as buildings or fixed equipment.
- Purchase order documentation was either missing or incomplete for four items and therefore classification was not determinable.

### Incomplete Tagging of Assets

Affixing a tag or serial number to an asset facilitates the positive identification of the asset. HHC policy requires tagging of major movable fixed assets acquired after July 1, 1998 that cost at least $1,000 and have a useful life of at least two years. Tagging is also required for assets acquired prior to July 1, 1998, if such assets had a net book value of at least $5,000 on July 1, 1998. Tag information is required to be entered on FA:M. In addition, HHC's Biomedical and Management Information System units may affix separate tags to equipment under their purview for their specific purposes.

We found assets often were not tagged for FA:M purposes. Of the 151 assets in our sample that we were able to locate, 91 assets did not have FA:M tags affixed to them, as follows:

- Twenty-one assets should have been tagged for FA:M purposes, but were not. These items were purchased after July 1, 1998 and cost at least $1,000.
- Fifty-eight assets may have required tagging. These assets were purchased prior to July 1, 1998 with a cost of at least $5,000. We could not determine the number of these assets that required tagging because the FA:M program cannot retroactively capture net book value. HHC was not able to indicate whether these assets had a net book value of at least $5,000 on July 1, 1998.
- Twelve assets did not require tagging since they were purchased prior to July 1, 1998 and the acquisition cost was less than $5,000.

Hospital officials ultimately were able to positively identify 48 of the 91 assets by using the hospitals' Biomedical and Management Information System tag numbers. The remaining 43 assets that were found could not be positively identified. Since FA:M is designed to be HHC's official system for fixed asset tracking and reporting purposes, hospitals should comply with HHC policy requiring the tagging of fixed assets.

The need for hospitals to improve compliance with HHC's tagging policy was confirmed by a second test of the inventory records. Using auditing software, we determined whether the 11 acute care hospitals complied with HHC's tagging policy for major movable fixed assets. We tested assets acquired after July 1, 1998 with a cost of at least $1,000. We determined that

a population of 24,838 assets with an acquisition cost of $210.8 million and a net book value of $150.4 million required FA:M tags. We found that FA:M did not contain tag numbers for 7,326 assets (29 percent) with a total acquisition cost of $81 million and net book value of $54 million. We did not evaluate assets purchased prior to July 1, 1998 that may have required tagging.

## Recommendations

1. Take a physical inventory of major movable fixed assets on hand and update the results to FA:M so that FA:M contains accurate and complete information. Perform periodic physical inventories, or effective alternative procedures, to maintain FA:M as a reliable tracking and reporting system for assets.

2. Investigate why assets, including those identified by our audit, cannot be accounted for during inventories and take appropriate action.

3. Strengthen asset controls by enforcing existing policy relating to the recording of asset location on FA:M, removal of retired assets from FA:M, the classification of fixed asset transactions for reporting purposes and the tagging of assets.

# MAJOR CONTRIBUTORS TO THIS REPORT

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Benjamin Chu, M.D., MPH
President

August 13, 2003

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

**RE: Draft Audit Report on New York City Health and Hospital Corporation's Controls over Major Movable Fixed Assets (Audit #2002 N-3)**

Dear Mr. McClune:

Thank you for the opportunity to respond to the above-mentioned draft audit report.

HHC has acknowledged that improvements can be attained in the Fixed Assets: Millennium System (FA:M) and has taken steps to improve the tagging, reporting and monitoring of our major moveable equipment.

As explained at the entrance conference, using 1998 as a starting point and moving forward, with the future objective of cleaning up pre 1998 items, HHC engaged the services of consultants to assist us with inventories and tagging at several of our facilities to identify assets and reconcile the FA:M system.

Consequently, we suggested that a review of assets purchased from 1998 to present would meet the objectives of the audit and provide an accurate assessment of the current system. However, approximately 78% of the sample items were purchased or acquired much earlier than 1998, some as far back as 1957. Consequently, the findings have resulted in erroneous conclusions and statements that are not indicative of our current procedures and controls.

* *Note 1*

Regarding the 56 retired items mentioned in the report for which there was a lack of documentation, it should be noted that HHC's documentation retention policy requires documents for retired assets be maintained for six years. Of the 56 items cited, 49 or 87.5% were purchased prior to 1996 and as far back as 1957. Therefore, it is appropriate that the retirement documents were not retained under our retention policy. We agree, however, the items should have been removed from FA:M in a timely manner. In April 2003, the Corporate Controller submitted a detailed report to all facilities listing all fully depreciated major moveable equipment on FA:M. The facilities will work to identify assets no longer in use and properly retire them from the FA:M system.

* *Note 2*



* See State Comptroller's Notes, Appendix C **Appendix B**

Mr. Kevin M. McClune
State of New York
Office of the State Comptroller

The list also included two items still in use at NCB. The computer software listed was the cost of the licensing fee for the HDS installation at NCB. The auditor received a copy of the purchase order, the HDS invoice (#9569), and a copy of the contract. The other item was the purchase of the "Data General Orion 8500+ System", a Y2K upgrade. As explained to the auditors, this was not a relinquished item. The auditors received the original purchase order, along with the replacement purchase order and correspondence from the Data General Corporation. Consequently, these two items should not have appeared on this list.

*
***Note 3***

The report also states there were 17 items missing. At Harlem Hospital, three of the four items were located by hospital staff and the list was provided to the auditors. The fourth item, a medical cart purchased in 1993 with a net book value of $91.13, was included in a recent retirement report.

*
***Note 4***

At Woodhull the vehicle cited in the report was purchased in 1978 and would have been fully depreciated in 1983. Clearly, this asset would not be in use at the time of the audit some 25 years later, and should have been removed from the system.

At NCB the auditors listed an operating table with a net book value of $19,591.11. The auditors were shown an operating table with a serial number which corresponded to an invoice and a purchase order. The old inventory tag had fallen off and was replaced with a new one. Although the facility neglected to change the old tag number on the system, a serial number should be considered sufficient to evidence the existence of the asset and should not have been listed as missing.

*
***Note 5***

The audit found that of the 300 items sampled, 13 (excluding those items located at Harlem and NCB), representing 4.3 % could not be located. Of those 13 items, seven or 54% were acquired between 1978 and 1993. This included an EKG machine bought in 1982 and as previously mentioned, the vehicle purchased in 1978. Although HHC's goal is 100% verification of its fixed assets, to include such items as a 25 year old vehicle and a 21 year old EKG in the data from which you derived your findings and conclusions may be misleading. Also, it cannot be realistically expected that a 21 year old EKG, and other similar equipment, would be in operation given the continued advancement in medical equipment technology and the expected useful life of such equipment. Considering the size of our facilities and the hectic daily activity of a hospital environment, (including the frequent movement of equipment), the level of accountability achieved over these assets remains within acceptable operating standards in the hospital industry.

*
***Note 6***

More importantly, inaccuracies in the FA:M have nothing whatsoever to do with our ability to care for our patients or the availability of needed equipment for departments to function. It is inaccurate and inappropriate for the auditors to suggest that a correlation exists between "accounting" for fixed assets and clinical care, thus this statement should be stricken from the report.

*
***Note 7***

HHC has progressively made improvements to the reporting of major moveable assets and we will continue our current course and approach as it has provided proven results.

Mr. Kevin M. McClune
State of New York
Office of the State Comptroller

**Attachment I** is the facilities' detailed responses. **Attachment II** is the Audit Implementation Plan which addresses all the recommendations cited in the report.

Should you have any questions concerning this response, please contact Mr. Alex Scoufaras, Assistant Vice President, Internal Audits at 212-730-3123.

Sincerely,

Benjamin K. Chu, MD

Attachments: 2

cc: F. J. Cirillo, Senior Vice President, Operations
J. Orlando, Senior Vice President, North Bronx Health Network
P. Velez, Senior Vice President, Queens Health Network
J. R. Sanchez, Senior Vice President, Northern Manhattan Health Network
L. D. Curtis, Senior Vice President, North Brooklyn Health Network
J. Palmer, Executive Director, Renaissance Health Care Network
J. Wool, Chief Financial Officer, Queens Health Network
N. Guzman, Chief Financial Officer, Jacobi Medical Center
V. Bekker, Chief Financial Officer, Lincoln Hospital & Medical Center
A. Scoufaras, Assistant Vice President, Office of Internal Audits
L. Migdal, Deputy Chief Financial Officer
D. Cates, Chief of Staff, Office of the President
K. McGrath, Corporate Director, Communications & Marketing
R. Bernstein Audit Liaison, Mayor's Office of Operations

Attachment I

# NEW YORK CITY HEALTH AND HOSPITALS CORPORATION

230 West 41st Street · New York, New York 10036

**George A. Marino**
**Deputy Corporate Comptroller**

July 29, 2003

**To:** Alex Scoufaras
Assistant Vice President
Internal Audits

**From:** George Marino

**Subject:** **Draft Audit Report by New York State Comptroller's Office - Controls Over Major Movable Fixed Assets**

---

In response to the draft audit report by the New York State Comptroller's Office on Controls over Major Movable Fixed Assets, the Corporate Comptroller's Office agrees that improvements could be made regarding major movable equipment, particularly with respect to timely removal of retired assets in the Fixed Assets: Millennium System (FA:M). However, we believe many of the State Comptroller's conclusions are not warranted and, in fairness to HHC, should be removed or rewritten.

The State's most significant finding, in its sample of 300 items, is that 132 assets had been retired but were still in FA:M. The State did not provide us with a listing of these 132 assets, but they most likely had $0 Net Book Value. Accordingly, this finding has no impact on the Corporation's financial statements or cost reports and is referring to assets no longer in use. We believe comments such as the "system for major movable fixed assets is inaccurate and incomplete and cannot be relied upon for management purposes" in the Executive Summary and "management controls over major movable fixed assets were weak" on Page 5 should be removed or rewritten.

* Note 8

* Note 7

Further, facility department heads know what equipment they need to function and what equipment they have, regardless of the finding that retired assets or assets no longer in use are still in FA:M. Accordingly the comment "costly assets integral to the operations of HHC hospitals will be unavailable when needed" appearing in the Executive Summary and again on Page 5 should be removed or rewritten.

* Note 7

We also question some of the State's detail findings in their report such as the following:

- Of the 300 sampled items, 43 assets were located but were not tagged. Some of these 43 assets may not have been subject to tagging under the Corporate guidelines, but we were not provided a listing of such assets to review.

* Note 9

* See State Comptroller's Notes, Appendix C

- To the best of our knowledge, a control edit has been in place since December 1, 1995 to ensure facilities enter a location code in FA:M for their equipment purchases. The State claims on Page 7 they found 4,784 items Corporate-wide, purchased after December 1, 1995, that had no location code. We were not provided a listing of these items to verify this finding.

*
Note
9

- The State claims on Page 8 they found 34 assets that were incorrectly classified as major movable equipment. The State believes 9 of these items should have been expensed and not capitalized, but most of these items are properly capitalized such as a $179,000 pharmacy information system and a $136,000 medical record chart tracking system. Further, we were not provided further details on items considered to be fixed equipment by the State; further investigation may have demonstrated many of these items were properly classified as major movable equipment.

*
Note
10

- One of the State's findings on Page 9 is that 91 assets in their sample were not tagged. A review of their listing shows at least 18 of these 91 would not be subject to Corporate tagging as they were acquired before July 1, 1998 and had a Net Book Value of less than $5000 at July 1, 1998. If we were provided more details on the State's complete list, there are probably many more assets that are not subject to the Corporate tagging policy.

*
Note
11

Regarding the State's finding of 132 pieces of equipment that should have been retired in FA:M, the facilities must do a better job of removing assets from the system when they are scrapped, sold, traded in, lost or no longer in use. Department heads must report such asset retirements timely to the facility Finance Department. The Corporate Comptroller's Office has already taken steps to address this issue and assist the facilities. In March, 2003, we performed our annual Mass Retirement of fixed assets for all facilities. As usual, we retired assets 10 years old or more which were fully depreciated ($0 net book value). With the concurrence of KPMG, we raised the cost criteria from original cost of less than $1000 to original cost of less than $5000. This effort resulted in the removal of assets with a total original cost of over $89 million from FA:M.

In addition, after the above mentioned assets were mass retired, we sent to all facilities in April 2003 detail fixed asset reports, by cost center, listing all remaining fully depreciated major movable equipment ($0 net book value). Facilities were told to distribute these listings to department heads/cost center managers to identify assets no longer in use and then retire them in FA:M. Some facilities have begun working on this project, but we will be communicating soon with all facilities to give them a deadline to complete this project.

Attached is our completed Audit Implementation Plan.

Should you have further questions, please give me a call.

cc: Larry Migdal
Walter Otero
Robert Liang

Attachment I

Elmhurst
HOSPITAL CENTER

New York City
Health and Hospitals Corporation
Affiliated with
Mt. Sinai School of Medicine

*TO:* *Alex Scoufaras*
*Director of Internal Audits*

*FROM:* *John Batsedis*
*Network Controller*

*DATE:* *July 25, 2003*

*SUBJECT:* *Audit Report on NYCHHC's Controls over Major Movable Fixed Assets*

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*Initially, we would like to thank the NYS Office of the State Comptroller Auditor's for bringing the three Fixed Asset findings to our attention.*

*A number of the items selected by the Auditors for their review were extremely old with ZERO book value and which had no impact on the Financial Statements. In one case, they selected a CYSTO TABLE, which was purchased back in 1957.*

*For a number of years now, we have been completing the Salvage/Relinquishment Forms as required. We have also instituted an Internal Form to be completed each time an asset is moved from its original booked location to another location.*

*As requested, we have attached our Audit Implementation Plan, which we believe will strengthen the accuracy and reliability of our FAM System.*

*Cc:* *P. Velez w/*
*C. Constantino w/*
*J. Wool w/*
*W. Zimmerman w/*
*M. Litman w/*

79-01 Broadway
Elmhurst, New York 11373
Tel: 718 334-4000

Attachment I

NEW YORK CITY HEALTH & HOSPITALS CORPORATION
**North Bronx Healthcare Network**
1400 Pelham Parkway South - Room 528 Staff House, Bronx, New York 10461 - Tel. (718) 918-3685 - Fax (718) 918-4547

*Mary O. Delaney*
*Director of Internal Audits*

TO: Walter Otero
Corporate Assistant Director

FROM: Mary O. Delaney MOD

RE: New York State Office of the Comptroller
Audit of Major Movable Fixed Assets 2002-N-3

DATE: July 25, 2003

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The Audit conducted by the State Comptroller's Office for the period July 1, 1999 through March 31, 2002 was to determine if Health and Hospital Corporation had adequate controls to provide reasonable assurance that all movable fixed assets are accurately recorded and properly accounted for. The conclusion derived by the Comptroller's Office is "that HHC's inventory control system for major movable fixed asset is inaccurate, incomplete and can not be relied upon for management purposes. The basis given for reaching their conclusion is as follows:

a) Assets were not tagged.
b) Retired assets were included on the inventory record, asset retirement was not adequately documented.
c) Asset locations were not recorded or were not accurately documented.

They chose a sample from the Fixed Asset: Millennium System (F.A.M.) database and then requested that these assets, in three cost categories, be located based on information that was found in the F.A.M. System.

The Comptroller's Office sampled a total of 75 assets from the F.A.M. System for North Central Bronx Hospital. Overall we were able to find 35% of the assets on the list; 57% we contend were retired, and of those we presented documentation to the Auditors to support 74% of our contention. We were unable to find 8% of the assets on the list.

| DISPOSITION OF ASSETS | $1,000 to $5,000 | $5,000 to $10,000 | Over $10,000 | All Category |
|---|---|---|---|---|
| FOUND BY FACILITY | 6 | 12 | 8 | 26 |
| RETIRED WITH DOCUMENTATION | 10 | 8 | 14 | 22 |
| RETIRED WITH NO DOCUMENTATION | 2 | 4 | 5 | 11 |
| UNFOUND | 2 | 1 | 3 | 6 |
| **TOTAL ASSETS** | **20** | **25** | **30** | **75** |

Those assets that we were unable to find fell into three categories (a) assets that were movable and were being used by a clinical area in more than one location (b) assets that were part of another asset but were unable to identify (c) assets that were unaccounted for because their movements was not tracked and recorded.

North Central Bronx Hospital had 10 items on the list derived from the F.A. M. System that could not be identified with a hospital tag number. Our examination of these assets indicates that 60% of these assets were acquired more than eleven years ago and had an average net book value of $1,249.21. Our experience with moveable assets has also taught us that the passage of time causes the tags to fall off or to be taken off. We have found that there is little control over this. When they are discovered they are retagged.

The Comptroller's Office conclusion was also reached based on the belief that "Asset locations were not recorded or were not accurately documented." North Central Bronx Hospital does have an asset location system. When the asset changes from department to department the change in location and department is recorded using the Asset Relocation and Relinquishment Form. It is difficult to impossible for the hospital to enter every location for a piece of equipment that relocates within a clinical service/department each month, week or day.

The facility has implemented internal controls to record, tag and document assets purchased. Equipment moved by the Materials Management Department is documented through relocation/relinquishment forms. This is then entered into the Materials Management System and forwarded to the Fixed Asset Department to be entered into the F.A.M. system. The procedure was fully implemented post the audit time frame.

It is not feasible to record location changes of intra-departmental moves. Attempting to log these types of moves would be labor intensive and interfere with patient care.

North Central Bronx Hospital has evaluated the Comptroller's Office recommendations and will implement a plan to insure that the F.A.M. System will be made to more readily service the need of management in controlling Major Movable Fixed Assets.

If you have any questions please contact me at (718) 918-3685.

Thank you.

Cc: Joseph S. Orlando
Arthur Wagner
Joseph Alongi
Nancy Guzman

Attachment I

**North Brooklyn Health Network**

**Ferdinand Ortiz**
**Deputy Chief Financial Officer**
**(718) 963-8127 Fax (718) 630-3126**

*Woodhull Medical & Mental Health Center*
*Cumberland Diagnostic and Treatment Center*
*Bushwick Communicare*
*Williamsburg Community Health Center*
*Bushwick Community Health Center*
*Bushwick-Hylan Health Center*
*Eleanor Roosevelt Houses Child Health Clinic*
*Fort Greene Child Health Clinic*
*Jonathan Williams Houses Child Health Clinic*
*Lafayette Houses Child Health Clinic*
*Sumner Avenue Houses Child Health Clinic*
*Williamsburg Child Health Clinic*
*Wyckoff Gardens Houses Child Health Clinic*
*Intermediate School 49*
*Junior High School 265*

TO: Alex Scoufaras
Assistant Vice President
Office of Internal Audits
NYC Health & Hospitals Corporation

FROM: Ferdinand Ortiz

DATE: August 4, 2003

SUBJECT: RESPONSE TO THE NYS COMPTROLLER'S AUDIT OF FIXED ASSETS

The following are our comments to the draft Audit Report issued by the Office of the State Comptroller on the internal control of fixed assets. We have reviewed and discussed the report and the recommendations made with the Facility's Fixed Assets Department personnel.

We have taken the following steps in order to control fixed assets:

During the past year, we hired one full time Fixed Assets Coordinator. Since then, we are tagging fixed assets with a value of $1,000.00 or more on an on-going basis.

Corporate Central Office has sent us a listing of assets purchased in the past years. We are in the process of sending portions of this report to the respective cost centers, asking them to review and identify the assets on the report. Based on the feedback from the departments, we will either tag the assets or remove them from the FA:M system.

The MIS department has a PC-based computer tracking system which lists all the computers received in the Hospital and distributed to the various cost centers.

Our Fixed Assets Coordinator visits cost centers periodically in order to track the assets received and to ensure the information reported in the FA:M system is accurate, current, and that the assets are properly classified.

The departments have been advised to tell the Finance department about the movement of the assets so that the location can be changed as necessary.

Regarding the sample chosen by the NYS State Auditors, 51 out of 75 assets selected in the sample, or 68%, were purchased prior to 1997 (for example, there was one asset purchased in 1996, one in 1978, twelve in 1982, six in 1987 etc.). Most of the assets in the sample were fully depreciated with a net book value of zero. Because of the inclusion of these assets in the sample methodology, the sample was not representative of the Facility's current fixed assets operation. However, steps are underway to remove these assets from the FA:M system.

Should you have any questions, please call me.

Cc: Lynda Curtis
Zaheer Baig
Nanda Damodara
Henry Delgado
Milton Nuñez

Woodhull Medical & Mental Health Center
760 Broadway
Brooklyn, New York
11206-5317
A Member of
New York City Health and Hospitals Corporation

Attachment I

New York City Health and Hospitals Corporation
Generations + / Northern Manhattan Health Network
**Renaissance Health Care Network & Harlem Hospital Center**
506 Lenox Avenue
New York, N.Y. 10037-1802

Neil Moore
Chief Financial Officer

Tel: (212) 939-2027
Fax: (212) 939-2026

# Memorandum

To: Alex Scoufaras
Internal Audit

From: Neil Moore

Date: July 30, 2003

Subject: Harlem Hospital Response Draft Audit Report on New York City Health and Hospitals Corporation's Controls over Major Movable Fixed Assets

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Attached is the completed Audit Implementation Plan. We have taken many steps to correct the deficiencies noted in Audit Report. A Fixed Asset Department was established in October 2002 to provide controls and monitoring for all future asset purchases in addition to correcting the problems that were found in the audit.

A partial list of untagged assets was obtained and 90% of those assets have been tagged and their locations updated. Every department received a list of all fully depreciated requesting the status of each asset. Once the proper documentation has been submitted, assets that have been relinquished were removed from the system. We are in the process of creating departmental databases for all assets that are not fully depreciated. Those lists will be sent to department heads for a status update. All corrections and changes will be entered into the FA:M system.

Also, we will be performing periodic surprise audits on departments to verify that the assets are in the proper location. This will enable us to verify compliance.

We have reviewed the findings of the auditors. Three of the four missing assets have been located and shown to Ron Townes, Central Office Internal Audit. For the Untagged Assets, of the 29 assets on the list, 17 were in compliance of the Corporate Policy put into effect July 1, 1998. With the use of the 6/30/99 Plant Ledger, we calculated the book value for each asset as of 6/30/98. Those assets with a book value under $5,000 did not have to be tagged. The remaining 12 assets should have been tagged.

* Note 4

If you have any questions, please call me at (212) 939-2051 or Mr. Harold Linder, Controller, (212) 939-2011.

Cc: V. Bekker
S. Lawrence, Ph.D
H. Linder
W. Otero
C. Provenzano
M. Frankel

MAYOR'S OFFICE OF OPERATIONS
AUDIT COORDINATION AND REVIEW
AUDIT IMPLEMENTATION PLAN

ATTACHMENT II

PART A

Audit Title: Audit Report on NYCHHC's Controls over Major Movable Fixed Assets Date: July 3, 2003 Audit Agency: NYS Office of the State Comptroller

Agency: NYCHHC (OIA 02-07) Audit Date: _____ Audit No: 2002-N-3 OMB Control No: _____

| RECOMMENDATION WITH WHICH THE AGENCY AGREES AND INTENDS TO IMPLEMENT | METHODS/PROCEDURES | IMPLEMENTATION TARGET DATE | PROGRAM IMPROVEMENTS/DOLLARS SAVINGS INCREASED REVENUE WITH TIME TABLE |
|---|---|---|---|
| **Recommendation # 1**<br>Facilities should take a physical inventory of major movable fixed assets on hand and update the results to FA:M so that FA:M contains accurate and complete information. Perform periodic physical inventories, or effective alternative procedures, to maintain FA:M as a reliable tracking and reporting system for assets. Pg. 10 | In April 2003, the Corporate Comptroller's Office sent to all facilities detail reports, by cost center, listing all remaining fully depreciated major movable equipment. Facilities were told to distribute these listings to department heads/cost center managers to identify assets no longer in use and then retire them in FA:M. We will be communicating soon with all facilities to give them a deadline to complete this project. | December 31, 2003 | Assets no longer in use at facilities will be removed from FA:M |
| **Recommendation # 2**<br>Facilities should investigate why assets, including those identified by our audit, cannot be accounted for during inventories and take appropriate action. Pg. 10 | Should be resolved when recommendations #1 and #2 are addressed | Not Applicable | Not Applicable |
| **Recommendation # 3**<br>Facilities should strengthen asset controls by enforcing existing policy relating to the recording of asset location on FA:M, removal of retired assets from FA:M, the classification of fixed asset transactions for reporting purposes and the tagging of assets. Pg. 10 | See Facility Responses – Facilities must comply with Corporate policies and procedures | Not Applicable | Not Applicable |

MAYOR'S OFFICE OF OPERATIONS
AUDIT COORDINATION AND REVIEW
AUDIT IMPLEMENTATION PLAN

ATTACHMENT II

PART A

Audit Title: Audit Report on NYCHHC's Controls over Major Movable Fixed Assets Date: August 1, 2003 Audit Agency: NYS Office of the State Comptroller

Agency: NYCHHC (OIA 02-07) – Elmhurst Hospital Center Audit Date: _____ Audit No: 2002-N-3 OMB Control No: _____

| RECOMMENDATION WITH WHICH THE AGENCY AGREES AND INTENDS TO IMPLEMENT | METHODS/PROCEDURES | IMPLEMENTATION TARGET DATE | PROGRAM IMPROVEMENTS/DOLLARS SAVINGS INCREASED REVENUE WITH TIME TABLE |
|---|---|---|---|
| **Recommendation # 1** Facilities should take a physical inventory of major movable fixed assets on hand and update the results to FA: M so that FA: M contains accurate and complete information. Perform periodic physical inventories, or effective alternative procedures, to maintain FA: M as a reliable tracking and reporting system for assets. Pg. 10 | **Our Internal Auditor will be performing periodic testing of our Fixed Assets. In addition, we will periodically submit Fixed Asset reports to departments for their verification.** | December 2003 | The FA: M System will contain accurate, reliable, and updated information to track and report assets. |
| **Recommendation # 2** Facilities should investigate why assets, including those identified by our audit, cannot be accounted for during inventories and take appropriate action. Pg. 10 | There was 1 item (computer) that was not found during the audit. We have changed the process to streamline computer asset controls. Upon receipt the computer is tag with a fixed asset tag number. The computer is delivered to MIS who programs the computer and makes arrangements to install and lockdown the PC. Once installed the MIS tracks the computer until it is relinquished. | Implemented | The FA: M System will contain accurate, reliable, and updated information to track and report assets. |
| **Recommendation # 3** Facilities should strengthen asset controls by enforcing existing policy relating to the recording of asset location on FA: M, removal of retired assets from FA: M, the classification of fixed asset transactions for reporting purposes and the tagging of assets. Pg. 10 | We have reissued the policy and procedure to all management employees. We have sent out an email to all staff reminding them that they must fill out relinquishment forms and have made the form electronic to improve compliance and tracking. We will ensure all assets are tagged. The FA: M System will include an asset description, tag/serial number, useful life, location and proper classification. Relinquished assets will be removed from the FA: M System. To maintain current location of assets in the FA: M System, departments will notify the Finance Department when assets are moved. | Implemented and Ongoing | The FA: M System will contain accurate, reliable, and updated information to track and report assets. |

ATTACHMENT II

Part A

**Mayor's Office of Operations**
**Audit Coordination and Review**
**Audit Implementation Plan**

Audit Title: **Audit Report on NYCHHC's Controls over Major Movable Fixed Assets**

Date: **August 1, 2003**

Audit Agency: **NYS Office of the State Comptroller**

Agency: **NYCHHC (OIA 02-07)** - **North Central Bronx Hospital**

**Audit Date:** _____

Audit No: **2002-N-3**

OMB Control No:

| RECOMMENDATION WITH WHICH THE AGENCY AGREES AND INTENDS TO IMPLEMENT | METHODS/PROCEDURES | IMPLEMENTATION TARGET DATE | PROGRAM IMPROVEMENTS/DOLLARS SAVINGS INCREASED REVENUE WITH TIME TABLE |
|---|---|---|---|
| **Recommendation #1A**<br><br>Facilities should take a physical inventory of major movable Fixed assets on hand and update the results to F.A.M. so that F.A.M. contains accurate and complete information. | The F.A.M. system will be updated on a departmental basis. The results of the inventory count will be forwarded to the Fixed Asset Department and the appropriate adjustments will be made. | December 2003 | NONE |
| **Recommendation #1B**<br><br>Perform periodic physical inventories, or effective alternative procedures, to maintain F.A.M. as a reliable tracking and reporting system for assets. Pg. 10 | The facility will periodically check the accuracy of the information in the F.A.M. system by randomly auditing items in the F.A.M. system and locating them at the facility based on the information in the F.A.M. system. The facility will also audit from the facility to the F.A.M. system. All appropriate adjustments will be made based on the audit findings. | December 2003 | NONE |
| **Recommendation #2**<br><br>Facilities should investigate why assets, including those identified by our audit, cannot be accounted for during inventories and take appropriate action. Pg. 10 | The hospital will once again seek to locate these assets. Any assets not found will be documented and then purged from the system by the fixed asset department and materials management department. | December 2003 | NONE |
| **Recommendation #3**<br><br>Facilities should strengthen asset controls by enforcing existing policy relating to the recording of asset location on F.A.M., removal of retired assets from F.A.M., the classification of fixed asset transactions fro reporting purposes and the tagging of assets. Pg. 10 | The facility has implemented a system to track assets purchased to ensure that they are tagged and identified by location, department, and value. This was done after the time frame of the assets audited. The facility will develop a procedure to make these adjustments to the F.A.M. system. The facility will work with Central Office to eliminate assets from the system with zero book value and no useful life. | December 2003 | NONE |

MAYOR'S OFFICE OF OPERATIONS
AUDIT COORDINATION AND REVIEW
AUDIT IMPLEMENTATION PLAN

ATTACHMENT II

PART A

Audit Title: Audit Report on NYCHHC's Controls over Major Movable Fixed Assets  Date: August 1, 2003  Audit Agency: NYS Office of the State Comptroller

Agency: NYCHHC (OIA 02-07) – Woodhull Medical & Mental Health Center  Audit Date: _____  Audit No: 2002-N-3  OMB Control No: _____

| RECOMMENDATION WITH WHICH THE AGENCY AGREES AND INTENDS TO IMPLEMENT | METHODS/PROCEDURES | IMPLEMENTATION TARGET DATE | PROGRAM IMPROVEMENTS/DOLLARS SAVINGS INCREASED REVENUE WITH TIME TABLE |
|---|---|---|---|
| **Recommendation # 1** Facilities should take a physical inventory of major movable fixed assets on hand and update the results to FA: M so that FA: M contains accurate and complete information. Perform periodic physical inventories, or effective alternative procedures, to maintain FA: M as a reliable tracking and reporting system for assets. Pg. 10 | Departments will inventory all major movable fixed assets, properly tag assets, and reconcile to the FA: M System. The hospital departments will be responsible to inform the Finance Department regarding any retirement or movement of assets to maintain updated information in the FA: M System. The Finance Dept. will conduct periodic testing of the FA: M System. | September – December 2003 | The FA: M System will contain accurate, reliable, and updated information to track and report assets. |
| **Recommendation # 2** Facilities should investigate why assets, including those identified by our audit, cannot be accounted for during inventories and take appropriate action. Pg. 10 | The Finance Dept. will investigate any assets not accounted for or reconciled to the FA: M System. If found, the item will be tagged and matched correctly to the FA: M System. Otherwise, they will be removed from the FA: M System. | September –December 2003 | The FA: M System will contain accurate, reliable, and updated information to track and report assets. |
| **Recommendation # 3** Facilities should strengthen asset controls by enforcing existing policy relating to the recording of asset location on FA: M, removal of retired assets from FA: M, the classification of fixed asset transactions for reporting purposes and the tagging of assets. Pg. 10 | All assets will be properly tagged when received by the Facility and the location of the assets will be entered in the FA: M System by the person responsible for maintaining the system. The hospital departments will inform the Finance Dept. regarding any retirement or movement of assets to maintain updated information in the FA: M System. We are also in the process of identifying assets, which could be retired and removed from FA: M System. The person responsible for maintaining the FA: M System will ensure all assets are classified into appropriate category. | On going process | The FA: M System will contain accurate, reliable, and updated information to track and report assets. |

MAYOR'S OFFICE OF OPERATIONS
AUDIT COORDINATION AND REVIEW
AUDIT IMPLEMENTATION PLAN

ATTACHMENT II

PART A

Audit Title: Audit Report on NYCHHC's Controls over Major Movable Fixed Assets Date: August 1, 2003 Audit Agency: NYS Office of the State Comptroller

Agency: NYCHHC (OIA 02-07) – Harlem Hospital Center Audit Date: _____ Audit No: 2002-N-3 OMB Control No: _____

| RECOMMENDATION WITH WHICH THE AGENCY AGREES AND INTENDS TO IMPLEMENT | METHODS/PROCEDURES | IMPLEMENTATION TARGET DATE | PROGRAM IMPROVEMENTS/DOLLARS SAVINGS INCREASED REVENUE WITH TIME TABLE |
|---|---|---|---|
| **Recommendation # 1** Facilities should take a physical inventory of major movable fixed assets on hand and update the results to FA: M so that FA: M contains accurate and complete information. Perform periodic physical inventories, or effective alternative procedures, to maintain FA: M as a reliable tracking and reporting system for assets. Pg. 10 | The Hospitals will inventory fixed assets within the department specific cost centers. This will enable the Fixed Asset Department to match the cost center's fixed asset inventory to the FA: M System. Upon a complete reconciliation with the Hospital Departments, periodic audits will begin and the FA: M System will be updated accordingly. | October 2002 to December 2003 | The FA: M System will contain accurate, reliable, and updated information to track and report assets. |
| **Recommendation # 2** Facilities should investigate why assets, including those identified by our audit, cannot be accounted for during inventories and take appropriate action. Pg. 10 | Based on the actions implemented in Recommendation #1, salvaged and relinquished items have been and will continue to be deleted from the FA: M system. Department Heads were reinserviced to the Operating Procedures for relinquishment. | Implemented and Ongoing | The FA: M System will contain accurate, reliable, and updated information to track and report assets. |
| **Recommendation # 3** Facilities should strengthen asset controls by enforcing existing policy relating to the recording of asset location on FA: M, removal of retired assets from FA: M, the classification of fixed asset transactions for reporting purposes and the tagging of assets. Pg. 10 | For assets acquired, the Fixed Asset Dept. includes the description of the asset, tag/serial number, dollar value, expected useful life, location and classification into the FA: M System. The Fixed Asset Dept. designed a new form to track the movement of assets and will utilize the HHC approved forms for the relinquishment of fixed assets. | Implemented and Ongoing | The FA: M System will contain accurate, reliable, and updated information to track and report assets. |

# *State Comptroller's Notes*

1. HHC officials did not suggest at the entrance conference that a review of assets purchased from 1998 to present would meet the objectives of the audit and provide an accurate assessment of the current system. As stated in the Audit Scope, Objective and Methodology section of our report, the objective of our audit was to determine whether HHC has adequate controls to provide reasonable assurance that all major movable fixed assets are accurately recorded and properly accounted for. Our sampling methodology was designed to meet our audit objective by addressing the adequacy of controls over all major movable fixed assets recorded on the FA:M system. Further, we note that 39 percent of the 300 items we sampled from FA:M were acquired subsequent to April 1, 1996, while only two of the 300 items were acquired before 1970.

2. The 56 items in question were listed on FA:M as available for use and were among 149 items that we could not locate. Hence, HHC's six-year documentation retention policy for retired assets is not relevant to these items. Further, during the course of our audit, neither HHC nor hospital officials advised us of HHC's document retention policy or used it as a reason for not providing us with documentation of their assertion that these items had been retired. Additionally, in cases where hospitals provided us with documentation supporting the retirement of other assets, some of these assets had been purchased prior to 1996.

3. During the course of our audit, hospital officials maintained that these two assets were no longer in use and not present at North Central Bronx (NCB) Hospital. Although we were provided with a purchase order indicating that the computer software was a licensing fee for software acquired on June 1, 1997, we were told this asset was no longer in use. Further, we were not provided with any documentation concerning its retirement. Regarding the Data General Orion 8500+ System, North Central Bronx Hospital officials provided us with the following written information, "No longer in use. Possibly was given back to the vendor, for purchase of new equipment (exchange)." Consequently, we have not modified our report.

4. During the course of our audit, we made repeated visits to the hospitals and participated in lengthy searches for these assets. HHC officials have not provided any documentation of the existence of these assets and we have not modified our report.

5. During the course of our audit, in the absence of inventory tags affixed to sampled items, we identified assets by use of serial numbers. However, we were not shown an operating table with a serial number corresponding to an invoice and purchase order for the item in question. Hence, we have not modified our report.

6. While HHC officials state that seven of the assets that we could not locate were acquired between 1978 and 1993, we note that four of the seven items had a positive net book value on the FA:M system. Additionally, we noted during the course of our audit that items on FA:M with a zero net book value were still in use at the hospitals.

7. We have modified our report in this regard.

8. HHC officials did not request us to provide a listing of these 132 "retired" assets. However, during the course of our audit, HHC's Internal Audits unit requested and we provided a listing and details of the 56 assets that we could not locate and about which hospital officials stated their belief that the assets had been retired. We note that 12 of these assets had a positive net book value on FA:M, and therefore had an impact on HHC's financial statements and cost reports.

9. During the course of our audit, we provided HHC and hospital officials with all of the information they requested to support our findings.

10. We provided HHC officials with details concerning all the misclassified fixed asset transactions, e.g., those items that had been either incorrectly classified as major movable fixed assets or for which there was insufficient documentation on FA:M and the supporting purchase orders to document that the item in question was a major movable fixed asset. At the exit conference, it was agreed that hospital officials would review the information and provide us with any additional documentation. However, no documentation was provided.

11. As stated in our report, 58 assets may have required tagging. However, we could not determine the number of these assets that required tagging because the data was not available on FA:M and HHC officials could not provide us with the information. Further, we provided HHC officials with detailed information concerning these assets.