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OFFICE OF THE STATE COMPTROLLER

September 7, 2006

Sharon E. Carpinello, R.N., Ph.D.  
Commissioner  
Office of Mental Health  
44 Holland Avenue  
Albany, NY 12229

Re: Report 2006-F-14

Dear Dr. Carpinello:

Pursuant to the State Comptroller's authority as set forth in Article V, Section 1 of the State Constitution; and Article II, Section 8 of the State Finance Law, we have followed up on the actions taken by South Beach Psychiatric Center officials to implement the recommendations contained in our prior audit report, *South Beach Psychiatric Center, Selected Financial Management Practices* (Report 2002-S-32).

**Background, Scope and Objectives**

The Office of Mental Health (OMH) is responsible for planning and operating an integrated system of mental health care designed to assist adults who have serious and persistent mental illness and children who suffer from serious emotional disturbances. The South Beach Psychiatric Center (South Beach) is one of 27 OMH-operated facilities providing inpatient, outpatient and community support programs throughout the State. South Beach provides intermediate level inpatient services to eligible persons living in Staten Island, western Brooklyn and Manhattan south of 42nd Street. Services are provided at the facility and at nine satellite locations in Brooklyn. South Beach has a staff of 848 full time equivalent employees, consisting of clinical, administrative, support and security personnel. For the fiscal year ended March 31, 2006, South Beach had total expenditures of \$57.5 million: \$51.1 million for personal services, and \$6.4 million for non-personal services. South Beach employees were paid over \$4.3 million for overtime during the 2006 fiscal year. As of March 31, 2006, the South Beach Business Office maintained 190 patient accounts totaling \$282,605 and unclaimed funds totaling \$2,114.

Our initial audit report, which was issued on December 31, 2003, found that South Beach had generally established adequate policies and procedures to govern its financial operations, and South Beach employees generally followed those policies and procedures. However, our audit did identify internal control weaknesses over employee time and attendance practices, overtime payments, purchasing activities, equipment inventories and patient funds. For example, the support

for overtime payments was not always documented, the vendor selected and the price paid for discretionary purchases often was not justified, and several employees at the work sites that we observed signed out well before the end of their respective work shifts, and in some cases without charging leave credits where appropriate. We recommended that certain improvements be made to strengthen South Beach's internal controls. The objective of our follow-up audit, which was conducted in accordance with generally accepted government auditing standards, was to assess the extent of implementation, as of July 21, 2006, of the six recommendations included in our initial report.

### **Summary Conclusions and Status of Audit Recommendations**

We found that South Beach officials have made progress in implementing the recommendations contained in our initial audit report. Of the six prior audit recommendations, three recommendations have been implemented, one recommendation has been partially implemented and two recommendations have not been implemented.

### **Follow-up Observations**

#### **Recommendation 1**

*Strengthen time and attendance controls at South Beach units to provide reasonable assurance that employees are paid for the hours actually worked.*

Status - Not Implemented

Agency Action - Although South Beach officials reinforced existing time and attendance procedures through the issuance of a February 13, 2006 memorandum, we found inadequate controls continue to exist over employee time and attendance. For example, at one of the 13 inpatient units we visited, we found that some employees were not signing in, not indicating their time of arrival, and signing out before the end of their respective shifts. The unit used preprinted sign-in and sign-out sheets listing each employee's name and scheduled starting and ending work times. We noted that several employees arrived after their scheduled starting times, yet did not make a notation on the sign-in sheet to correct the preprinted time. We provided South Beach officials with the details of our observations.

#### **Recommendation 2**

*Enforce existing time and attendance policies to ensure that overtime is properly documented and approved. Overtime able to be scheduled in advance should be pre-planned/pre-approved to the extent practical.*

Status - Partially Implemented

Agency Action - For six sampled employees, we found that employee overtime, once worked, is both documented and approved on the Overtime Authorization Rosters. However, improvements are still needed to control scheduled overtime. South Beach operating units use 28-day work schedules to determine when overtime will be needed to cover scheduled

staff absences. These work schedules are prepared in advance for the upcoming two pay periods. However, there is no formal procedure to address work schedule modifications after the initial 28-day work schedules have been prepared. Using the Overtime Authorization Rosters, we determined that 11 of 37 instances of overtime for the 6 sampled employees were coded as due to scheduled absences, and therefore should have been pre-planned and pre-approved. Of those 11 instances, 6 were listed on the 28-day work schedules, while 5 were not listed. Therefore, these five instances of overtime, although due to scheduled absences, were not pre-planned or pre-approved as required.

### **Recommendation 3**

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

Status - Implemented

Agency Action - South Beach officials provided us with documentation indicating that, based on an internal OMH investigation, correct overtime payments were made for the employees in our initial audit sample.

### **Recommendation 4**

*Comply with OGS purchasing requirements relating to discretionary and contract purchases.*

Status - Implemented

Agency Action - South Beach's Business Office issued a Management Policies and Standards memorandum reinforcing longstanding OMH and South Beach purchasing policies. Those policies generally meet the Office of General Services (OGS) purchasing requirements. We examined ten purchases from fiscal year 2006 to determine whether these purchasing requirements were being complied with. For all ten purchases, the applicable purchasing requirements had been followed.

### **Recommendation 5**

*Strengthen controls over equipment by establishing inventory control over, and tagging, all required equipment, and performing periodic physical inventories.*

Status - Not Implemented

Agency Action - We found that South Beach officials have not established inventory control over required equipment. In addition, no periodic physical inventories have been taken. We note that 32 equipment purchases, costing \$28,658, were made during fiscal year 2006, and current assets that can be inventoried approximate \$6.2 million. South Beach officials now acknowledge the need to maintain a schedule of durable capital equipment, and to conduct a semi-annual inventory, and indicated that they would do so.

**Recommendation 6**

*Improve controls over patient cash accounts by:*

- *Requiring that patients' cash withdrawals be authorized in accordance with the OMH Administrative Support Procedure Manual.*
- *Promptly processing cash refunds to patients in accordance with OMH guidelines.*

Status - Implemented

Agency Action - Since our initial audit, South Beach officials have strengthened controls over patient cash account withdrawals. They now require, based upon the withdrawal amount, graduating levels of authorization. We examined 54 recent patient cash withdrawals, totaling \$1,733, and found that all 54 had been properly authorized. In addition, the total undistributed cash balance in the accounts of discharged patients, which was \$20,275 during our initial audit, has now been reduced to \$2,114. The average amount of time it took to make refunds to the designated parties was 41 days, well within the established OMH 90-day requirement.

Major contributors to this report were Stuart Dolgon, Salvatore D'Amato, Jeffrey Marks, Natalie Gordon and Daniel Winicki.

We would appreciate your response to this report within 30 days, indicating any actions to address the unresolved issues discussed in this report. We also thank the management and staff of South Beach for the courtesies and cooperation extended to our auditors during this process.

Very truly yours,

Frank P. Patone, CPA  
Audit Manager

cc: W. Henri, South Beach  
J. Einbond, South Beach  
J. Russo, OMH