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OFFICE OF THE STATE COMPTROLLER

January 4, 2008

Richard M. Daines, M.D.
Commissioner
Department of Health
Corning Tower
Empire State Plaza
Albany, NY 12237

Re: Report 2007-F-34

Dear Dr. Daines:

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 officials of the Department of Health (Department) to implement the recommendations contained in our audit report, *Internal Controls Over Procurement Operations and Equipment Asset Management* (Report 2005-S-17).

Background, Scope and Objectives

The Department is one of the largest agencies in State government. The Department and its 5,900 employees are responsible for managing the State's \$43-billion Medicaid program and supervising most major medical facilities such as hospitals, nursing facilities, diagnostic and treatment centers, and public health programs in the State; operating several healthcare facilities and veterans nursing homes; managing a prescription drug program for the elderly and health insurance programs for children, families, and small businesses; serving as a conduit for local assistance and research funding; and overseeing county health department activities. The Department has program and administrative staff in more than 30 locations Statewide. The Department's Division of Administration is responsible for overseeing its equipment asset inventory. The Department's Fiscal Management Group is responsible for overseeing and coordinating procurement and contracting areas.

Our initial audit report, which was issued on July 1, 2006, examined whether the Department has established an adequate system of internal controls over its procurement and equipment inventory practices. We found that there were opportunities for the Department to make improvements in its internal controls. We determined contracts were not always submitted to OSC in a timely manner. We also determined that the purchasing card was not used for all small dollar purchases. In addition, we determined that the Department needs to better monitor compliance with

its vehicle use policy, and better communicate equipment inventory policies and procedures. The objective of our follow-up, which was conducted in accordance with generally accepted government auditing standards, was to assess the extent of implementation as of December 3, 2007, of the seven recommendations included in our initial report.

Summary Conclusions and Status of Audit Recommendations

We found that Department officials have made progress in implementing the recommendations contained in our initial audit report. Of the seven recommendations, five recommendations have been implemented, one recommendation has been partially implemented, and one has not yet been implemented.

Follow-up Observations

Recommendation 1

The Department should conduct a comprehensive analysis of its contracting process to determine where efficiencies can be implemented that will improve timeliness of execution and reduction of unnecessary interest payments.

Status - Implemented

Agency Action - The Department has reviewed its contracting process and determined that a lack of qualified procurement and contracting staff as well as a lack of a central monitoring system are obstacles to effective and timely contracting practices. The Department has taken steps to address these issues, including obtaining approval for and hiring new staff. In addition, the new staff will become part of a reorganized Grants and Procurement Unit. According to Department officials, the restructured unit will allow staff to have more control and oversight of the contacting process by becoming more involved, especially early on in the solicitation of bids and proposals. The Department is also taking preliminary steps to work with the State Office of Children and Family Services (OCFS) to adapt and implement the contract management system which OCFS is currently using. Department officials feel a centralized contract management system will help allow them to streamline and better manage the contracting process.

Recommendation 2

Discontinue the policy of loaning research equipment to former employees.

Status - Implemented

Agency Action - The Department has amended its equipment policy to prevent the loaning of research equipment to former employees. The Department's updated equipment inventory policy now indicates that no equipment purchased with State funds may be loaned or transferred to another entity.

Recommendation 3

Monitor the use of vehicles in the Department's fleet to ensure compliance with the Department's vehicle use directives.

Status - Implemented

Agency Action - The Department has taken steps to more closely monitor vehicle usage for compliance with its vehicle use directives. For example, the Department's Operations Management Group (OMG) has implemented random monthly reviews of vehicle use. OMG selects vehicles at random and compares items such as fuel usage and E-ZPass charges with the mileage claimed for the vehicles for that period. In addition, OMG annually sends confirmations to program supervisors whose programs are assigned vehicles. The program supervisors must complete information, such as the name of the individual to whom the vehicle is assigned, license plate numbers, and any EZPass numbers, and return it to the OMG unit. OMG also gets monthly vehicle cost records. Supervisors collect and review the records, including mileage, destinations, and purposes of travel. The supervisors then forward the forms to OMG, where they are reviewed.

Recommendation 4

Reassign or dispose of vehicles not used in compliance with Department directives. Consider alternatives such as reimbursing employees at the allowed mileage rates for using personal vehicles when they drive less miles or fewer days than required by the Department's vehicle use directives.

Status - Partially Implemented

Agency Action - The Department did not provide evidence that it reassigns or disposes of vehicles based on usage. However, the Department has instituted a policy that OMG must review new vehicle requests and authorize them based on need and justification. OMG approval will be based on items like program and worksite need, work requirements, and current vehicle mileage reports. Officials provided emails between OMG and a Department program as examples to support the review of the program's request to replace existing vehicles with new ones. According to the emails provided, OMG did not approve two of the program's requested vehicles because they were not justified based on usage.

Recommendation 5

Establish procedures to ensure the State Purchasing Card is used for small dollar payments; and the cards are used only by authorized employees.

Status - Implemented

Agency Action - The Department has procedures for using the purchasing card for small dollar purchases and ensuring that only authorized employees use them. The Department's internal memos and its purchasing card manual stipulate that purchasing cards are to be used for purchases under \$1000. In addition, several reminders were sent to employees and executive

staff via internal Department communications indicating that the purchasing cards should be used for purchases under \$1,000. In addition, the Department's Purchase Unit staff review purchase requisitions. Purchase requisitions under \$1000 are returned to the originating program with a form indicating that the purchasing card must be used for the purchase. The Department helps ensure the cards are used by authorized employees by requiring employees to apply for purchasing cards.

Recommendation 6

Improve communications throughout the Department to improve compliance with the Department's equipment management procedures.

Status - Implemented

Agency Action - The Department has taken steps to improve communication regarding equipment management procedures. The equipment inventory procedures were updated in December 2006. According to Department officials, updated policies and procedures are communicated Department-wide via intranet news items. In addition, the Department equipment inventory policy is currently being updated again, based on feedback from within the Department. The Department is also in the formative stages of identifying and implementing an equipment inventory management system. Officials state that a Department-wide system will allow for better, more-informed communications regarding equipment inventories.

Recommendation 7

Complete a physical inventory of equipment throughout the Department to update the central inventory record. Follow-up with periodic physical inventories to ensure the central inventory record remains accurate.

Status - Not Implemented

Agency Action - The Department has not yet conducted a physical inventory of equipment throughout the Department. The Department needed to identify, obtain, and implement an inventory management system prior to conducting the inventory. Department officials provided emails dating back to September 2006, documenting their efforts to identify and implement an inventory system. Despite these efforts, the Department has not yet implemented an inventory management system. Department officials stated that testing of the proposed system should take place in December 2007, with implementation in 2008. Nor has the Department yet picked a vendor to perform the physical inventory. We recommend that the Department complete a physical inventory as soon as possible.

Major contributors to this report were Brian Lotz and Brian Krawiecki.

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

Very truly yours,

Albert Kee
Audit Manager

cc: Steve Abbot, Department of Health