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STATE COMPTROLLER



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STATE OF NEW YORK
OFFICE OF THE STATE COMPTROLLER

April 9, 2009

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

Re: Report 2009-F-8

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 recommendation contained in our audit report, *Montrose Veterans Home: Vendor Interest Payments* (Report 2007-S-69).

Background, Scope and Objective

The New York State Veterans Home at Montrose (Home) is a health care facility for veterans and their dependents, owned and operated by the New York State Department of Health. The 252-bed long-term-care skilled nursing facility serves the lower Hudson Valley region and is located on the grounds of the United States Veterans Administration Medical Center in Montrose. All State agencies are required to follow specific guidelines relating to contracts and purchases. In addition, Article XI-A of the State Finance Law gives legal guidelines for interest payments on certain amounts owed by the State. Between April 1, 2005 and March 31, 2007, the Home made 378 interest payments to 83 vendors totaling \$26,850.

Our initial audit report, which was issued on February 8, 2008, examined a judgmental sample of 6 vendors who received 114 interest payments totaling \$16,340 to determine whether interest payments were avoidable. Of the interest payments to the 6 vendors, we found that 53 interest payments totaling \$10,357 to 3 vendors could have been avoided had the Home processed the vendor invoices timely. The remaining 61 interest payments to 3 vendors, totaling \$5,983, could also have been avoided had the Home's contracting processes been working properly. The report further noted that, in the second year covered by our audit, the Home took steps to avoid interest payments. The steps included putting contracts in place and following proper voucher and contract management procedures. As a result, interest payments declined. The objective of our follow-up was to assess the extent of implementation as of March 24, 2009 of the one recommendation included in our initial report.

Summary Conclusions and Status of Audit Recommendation

We found that Department officials implemented our recommendation.

Follow-up Observations

Recommendation

Follow appropriate contract and payment procedures.

Status - Implemented

Agency Action - Since our initial audit, the Home has taken several steps to ensure that appropriate contract and payment procedures are followed to reduce or eliminate interest payments to vendors. Specifically, the Home no longer permits vendors to submit invoices for items that are backordered or otherwise missing from original shipments. Now, vendors can submit invoices for backordered items or items missing from original shipments only when such items are actually shipped to the Home. This change allows the Home to process payments as soon as an order is received. Previously, the processing of invoices for backordered and/or missing items delayed payments, which sometimes resulted in interest charges. In addition, when Home officials have disputes with vendors, they now ensure that payment liability dates are adjusted to the dates that the disputes are resolved. We also noted that the Home has developed a contract management system to monitor contract expiration dates (among other pertinent contract-related information). The contract management system helps Home officials to ensure that formal contract extensions and the corresponding payments are made timely, thereby avoiding interest charges for late payments. As a result of the new procedures, the Home paid only \$397 in interest to vendors during the fiscal year ending March 31, 2008, and, at the time of our follow-up review, it had not incurred any interest payments for the fiscal year beginning April 1, 2008.

Major contributors to this report were Karen Bogucki, Donald Collins, and David Pleeter.

We thank the management and staff of the Department for the courtesies and cooperation extended to our auditors during this process.

Very truly yours,

Brian E. Mason,
Audit Manager

cc: Mr. Stephen Abbott, Department of Health
Mr. Thomas Lukacs, Division of the Budget