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September 11, 1998

Mr. John A. Johnson
Commissioner
Office of Children and Family Services
Capital View Office Park
52 Washington Street
Rensselaer, NY 12144

Re: Report 98-F-18

Dear Mr. Johnson:

According to the State Comptroller's authority as set forth in Section 1, Article V of the State Constitution and Section 8, Article 2 of the State Finance Law, we have reviewed the actions taken by officials of the New York State Office of Children and Family Services's (formerly the Division for Youth) Industry School and Oatka Residential Center as of August 18, 1998 to implement the recommendations included in our prior audit "Industry School and Oatka Residential Center Resource Consolidation and Selected Management Practices" (Report 95-S-93, issued January 16, 1997).

Background

The Office of Children and Family Services (Office) operates residential facilities to provide for the care and rehabilitation of youth assigned to its custody by the courts. The Industry School (Industry) and the Oatka Residential Center (Oatka) are two limited secure residential facilities located next to each other on a 1,500 acre site in Monroe County. Both facilities provide intensive rehabilitation programs for juvenile delinquents under a controlled and restricted environment. Industry serves male youth whose ages range from 13 to 17 years old and is a hub facility for receiving youths until they are permanently placed in another facility. Oatka serves male youth whose ages range from 11 to 16 years and operates a ten-bed satellite group home. Facility populations, staffing and expenditures are summarized below:

	Oatka	Industry	Total
Average daily residential population	106	146	252
Number of employees at 8/12/98	115	160	275
Fiscal Year 1997-98 facility expenditures (in millions)	\$4.8	\$6.9	\$11.7

A director and an assistant director manage Oatka. A director and two assistant directors manage Industry. The Office is responsible for overseeing and assisting facility management.

Summary Conclusions

At the time of our prior audit, we determined that opportunities existed for consolidating Oatka and Industry food services, administration, education, maintenance and training functions, to increase the facilities' operating efficiency, and decrease personal service costs. In addition, we recommended that facility managers strengthen controls to ensure that they pay employees only for time worked and improve compliance with procedures intended to ensure a safe and secure environment at the facilities.

In our follow-up review, we found that Office and facility officials have made progress in implementing our prior report recommendations. However, management needs to take further action to recover overpayments related to time not worked, to monitor the effectiveness of internal controls intended to ensure they pay employees only for time worked, and to comply with procedures for obtaining background checks before hiring direct care employees.

Summary of Status of Prior Audit Recommendations

Of the ten prior audit recommendations, seven have been implemented and three have been partially implemented.

Follow-up Observations

Recommendation 1

Evaluate the costs, benefits and program impacts of consolidating some or all operations at Industry and Oatka. Staffing changes or reductions associated with consolidation could be achieved through redeploying staff or decreasing staff through attrition.

Status - Implemented

Agency Action - Since our prior audit, management has evaluated the potential for some consolidation of the Industry and Oatka campuses. They decided that the negative impacts of possible consolidations generally outweighed potential cost savings. However, Oatka did eliminate one Assistant Director position in May 1996 that resulted in an annual savings of about \$57,000. In addition, Industry began a centralized dining operation in July 1998. Industry officials said they would assess the possibility of reducing staff because of this consolidation. Office officials said they had no further plans to consolidate operations at these facilities. We encourage management to continuously evaluate the costs, benefits and program impacts of consolidating additional operations at Industry and Oatka.

Recommendation 2

Fully investigate the time sheet discrepancies we identified and take action to recover overpayments.

Status - Partially Implemented

Agency Action - As a result of our prior audit, Industry management conducted a review of all time sheets for the 1995 calendar year and determined that they paid employees for a total of 555 hours for time not worked. Industry management did not quantify the cost of these 555 hours.

We reviewed payroll records for five Industry employees that we identified in the prior audit as having been paid for 453 hours that they did not work. Industry management gave us documentation showing that they had reduced leave accruals and processed pay deductions for four of these employees. This resulted in salary and accrual recoveries of \$6,682. Management did not have sufficient support to document actions taken for the remaining employee in our sample. Our prior audit determined that Industry paid this employee 79.75 hours (about \$1,180) for time not worked. Time records for this employee showed that Industry reduced his leave time by 51.75 hours (about \$766) on April 3, 1996. Industry management could not provide any evidence that the 51.75 hours were related to our audit or that they recovered payment for the remaining 28 hours.

Management at Oatka also investigated the time sheet discrepancies we identified and found that they had paid two employees for a total of 12 hours that they did not work. Oatka management required the employees to deduct these hours from their accrued leave time. This resulted in additional recoveries of \$180.

Auditors' Comments - Industry officials need to take additional actions to implement this recommendation. Specifically, they need to ensure that they have resolved and recovered all payments to employees for time not worked.

Recommendation 3

Fully investigate employee absences associated with overpayments and take appropriate disciplinary action where warranted.

Status - Implemented

Agency Action - Industry and Oatka management investigated employee absences associated with overpayments. Management did not take disciplinary action against any employee because their investigation of employee absences did not identify any indication that employees were attempting to commit fraud. They believe that time and attendance problems were only indicative of poor record keeping. Therefore, they do not believe disciplinary action was warranted.

Recommendation 4

Strengthen internal controls over employee time and attendance by:

- *formally assessing risks and designing appropriate control techniques,*
- *communicating control directives and responsibilities to all employees, and*
- *monitoring the system of controls to ensure that it remains effective.*

Status - Partially Implemented.

Agency Action - Management has set up several procedures designed to strengthen controls over employee time and attendance. These include: requiring that each supervisor audit their employees' time sheets; training staff to maintain accurate time records; training supervisors concerning their responsibility for auditing and certifying the accuracy of time records; requiring supervisors to maintain a record of employee absences; requiring that employees record actual hours worked on their time record rather than scheduled hours, when shift changes occur; comparing time records with other sources such as sign-in and key logs; and improving the process used by Central Service Unit staff for time recording. Industry management also said that they would enhance controls over employee attendance further once the security fence has been completed and employee entry is limited.

Auditors' Comments - Facility officials need to take additional actions to implement this recommendation. Industry management needs to continuously monitor controls to ensure they are functioning as intended. Our review showed that such monitoring has not occurred. We compared the time sheets for five employees to other facility log books for the period July 1, 1998 through July 22, 1998. We also reviewed the supervisors' records of these

employees' absences. Our review identified many instances where time sheet entries were not supported by other log book entries and/or the supervisors' records of employee absences.

Recommendation 5

Determine which employees should be allowed to get paid for meal breaks; establish policies and procedures which limit paid meal breaks to such employees.

Status - Implemented

Agency Action - The Office updated its policy on meal periods for residential program employees in March 1998. This policy requires that residential program employees working a 40-hour week remain on duty during, and be paid for, meal periods. This requirement is based on the need to maintain adequate supervision of residents. Residential program employees working a 37 ½ hour week are scheduled for an unpaid meal period. Only under extenuating circumstances are these employees to work through their meal period.

Recommendation 6

Oatka facility management should ensure that they report all unusual incidents to the central office telephone hotline.

Status - Implemented

Agency Action - The Office revised and clarified the Unusual Incident Reporting policy in November 1997 so that facilities have a better understanding of what has to be reported to the hotline. Office and facility management have also attempted to make staff more aware of their responsibilities for reporting unusual incidents. Current procedures require that facility Youth Division Counselors (YDCs) notify the Administrator on Duty of unusual incidents and then notify the hotline if necessary. Also, YDCs are now required to review activity logs and unit logs on a daily basis. This should alert them of any unusual incidents that should have been called into the hotline. This review was not required at the time of our prior audit.

Recommendation 7

Industry facility management should ensure that facility staff submits the required written follow up reports for all unusual incidents.

Status - Implemented

Agency Action - The Industry Director now receives confirmation from the Office of all unusual incidents reported to the hotline. The Director uses this information to ensure that the written

report is submitted. We reviewed unusual incidents that were reported to the hotline during July 1998 and found that written reports for all unusual incidents had been submitted.

Recommendation 8

Effectively communicate to all employees the requirements that they immediately report a criminal arrest, traffic conviction, or loss of driving privileges.

Status - Implemented

Agency Action - The Office's Employee Manual, issued October 1996, addresses employee requirements for reporting arrests to facility management. (Employees must sign a statement confirming receipt of the Manual.) Facility employees also receive training that includes requirements for reporting arrests. Other policy manuals contain instructions for staff concerning the reporting of traffic convictions or loss of driving privileges.

Recommendation 9

Order criminal history background checks for the five facility employees we identified and improve central office procedures to ensure that they properly screen all employees.

Status - Partially Implemented

Agency Action - The Office completed a criminal history background check for the five facility employees identified in our prior audit. Current Office procedures require that facility managers receive clearance from the Office before hiring any direct care employees. For each potential employee, Office staff conduct a fingerprint check to determine whether there is a criminal record, search the Child Abuse Registry, review their driving record and verify their credentials.

Auditors' Comments - Office officials need to take additional action to implement this recommendation. We reviewed the documentation for five employees hired between February 22, 1998 and July 1, 1998 and found that Industry management did not always wait for clearance before hiring direct care employees. One direct care employee in our sample was hired by Industry prior to receiving clearance. The Office identified a criminal history during the fingerprint check of this employee. Industry management was notified of the criminal history and terminated the employee. Facility records show that this person was employed for one week and managers indicated that he had little contact with residents during that time. Industry management should comply with Office procedures and not hire any direct care employee before receiving the proper clearance.

Recommendation 10

Develop control procedures that enable facility management to comply with the Division's driving record review requirements.

Status - Implemented.

Agency Action - During the job application process, the Office obtains applicant driving records from the Department of Motor Vehicles. In addition, facilities have been given access to Department of Motor Vehicle abstracts that they could not directly obtain in the past. Both Industry and Oatka review the driver abstract for all employees on an annual basis. Facility Central Services Unit staff are notified of employees that are disqualified from driving State vehicles or their personal vehicles on State business.

Major contributors to this report were Frank Russo, Jack Dougherty, Wayne Bolton and Kevin Connolly.

We would appreciate your response to this report within 30 days, indicating any action planned or taken to address any unresolved matters discussed in this report.

We also thank Office, Industry and Oatka management and staff for the courtesies and cooperation extended to our auditors during this review.

Yours truly,



William P. Challice
Audit Director

cc: Robert L. King, DOB
Thomas M. Coultry, Industry School
Nathan R. Hacker, Oatka Residential Center