Nassau County
Office of the Comptroller

Field Audit Bureau

Limited Financial Review of mercyFirst

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Comptroller

MA
May 30, 2006

NASSAU COUNTY
OFFICE OF THE COMPTROLLER

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Background

mercyFirst (the agency) is a private, non-profit 501(c)(3) child welfare agency licensed to provide residential care to children who have adjustment difficulties in their homes and in the community. Each year it serves over 3,000 children up to the age of 21 through an extensive array of programs, including a residential treatment center, a diagnostic program, community based residential services, and a preventive service program. Children from the greater metropolitan area are served by the agency. The agency's mission statement says:

"mercyFirst honors the spirit of the Sisters of Mercy and the legacy of their foundress, Catherine McAuley, providing hope by reaching out to children and families in need, recognizing the unconditional, God-given right of every person to heal and grow physically, spiritually, morally, intellectually, and emotionally."

For more than 20 years, the Nassau County Department of Social Services (DSS) had contracted with St. Mary's Children and Family Services (St. Mary's) for foster care, preventive services, and non-secure detention services. On March 18, 2003 St. Mary's merged with the Angel Guardian Children and Family Services (Angel Guardian) to form mercyFirst. Both agencies were founded by the Sisters of Mercy to serve underprivileged, dependent and neglected children and families. The agency now has more than 700 employees and expenses of $28.5 million and $46.8 million as of June 30, 2003 and June 30, 2004, respectively. The agency receives funding from various governmental agencies in the metropolitan area, foundation grants and private donations. Nassau County funded $7,209,101 and $8,313,910 of the agency's expenses in 2003 and 2004, respectively. The agency's programs are administered at over 25 sites. Residential and educational services are provided at the St. Mary's campus in Syosset. Group and foster homes are located throughout the metropolitan area. Preventive services programs are offered at locations in Brooklyn, Queens, and Nassau County.

Services Provided:

Foster Care

Children who may need foster care include those:

- who have been adjudicated as neglected, abandoned, abused, persons in need of supervision, or juvenile delinquents;
- children whose guardianship and custody, or care and custody, have been voluntarily transferred, pursuant to an instrument executed by their parents or legal guardians;
- children for whom guardianship and custody have been involuntarily committed by the court to an authorized agency, or foster parent; or
- unaccompanied refugee minors.

The Nassau County Commissioner of Social Services administers child welfare services in the county pursuant to New York State Social Services Law. Child welfare services can be provided directly or through an authorized agency. The agency and DSS have entered into a 10-year foster care contract covering the period

January 1, 2000 through December 31, 2010. Reimbursement is paid at per diem, per child rates established by the New York State Office of Children and Family Services (NYSOCFS). Nassau County paid the agency $5,494,132 and $6,504,897 in 2003 and 2004, respectively, for foster care services. Foster Care payments qualifying under Title IV-E of the Social Security Act, Foster Care and Adoption Assistance (FCAA) are funded at 50% by the federal government, 25% by New York State, and 25% by Nassau County. Foster care funded through Temporary Assistance to Needy Families- Emergency Assistance to Families (TANF-EAF), or through TANF-200% (Title XX Below 200% of Poverty Block Grant) is 100% federally funded. Nassau County administers all of these foster care funds.

Preventive Services

Preventive Services are supportive and rehabilitative services provided to children and their families in accordance with 18 New York Codes, Rules and Regulations (NYCRR) Part 423 for the purpose of averting the disruption of a family. The Preventive Services program provides intensive case management services to families in crisis. The program's goal is to keep the family intact and prevent out of home placement of the children. The agency's Nassau County Preventive Services program is located in Garden City. In 2003, the number of Nassau County families served by the program was increased from 200 to 250. Sources of funding for the program are 43% Federal, 35% New York State, and 22% Nassau County; all these funds are administered by Nassau County. In calendar years 2003 and 2004, the county paid the agency $1,119,175 and $1,213,150 respectively for preventive services.

Non-Secure Detention

A non-secure detention facility is characterized by the absence of physically restricting construction, hardware and procedures.[1] The agency's non-secure detention program offers short-term care to boys referred by Family Court due to ungovernable behavior. A six bed residential treatment center, Whiston Hall, has been reserved for Nassau County's exclusive use for the non-secure detention of persons in need of supervision (PINS) or juvenile delinquents. The building is located on the agency's Syosset campus. In 2003, the county paid $595,794 to the agency for this program, and in 2004, $595,863. Funding is evenly split between New York State and Nassau County.

Audit Scope, Objective and Methodology

We conducted a financial and internal control review of programs funded by Nassau County. Our objective was to examine the agency's compliance with the terms of the foster care, preventive services, and non-secure detention contracts with the county for the period January 1, 2003 through May 31, 2005. We reviewed compliance with New York State law and NYSOCFS regulations governing the contracts and examined evidence, on a test basis, to support transactions recorded in the agency's operating records. We reviewed policies and procedures, interviewed managers and staff, and reviewed relevant accounting records and reports.

[1] 9 NYCRR section 180.3.

Amounts claimed for reimbursement from the county were traced to supporting documentation, including payroll and time and attendance records, contracts, bills and invoices, and attendance records for children in the agency's care.

This audit was conducted in accordance with generally accepted government auditing standards. These standards require that the audit is planned and performed to obtain reasonable assurance that the audited information is free of material misstatements. An audit includes examining documents and other available evidence that would substantiate the accuracy of the information tested, including all relevant records and contracts. It includes testing for compliance with applicable laws and regulations, and other auditing procedures necessary to complete the examination. We believe that the audit provides a reasonable basis for the audit findings and recommendations.

Summary of Significant Findings:

Duplicate Foster Care Payments

mercyFirst was in receipt of duplicate payments in the amount of $420,460 for the care of foster children dating back as far as 2001. The agency stated that it was unaware of these duplicate payments until it was notified by DSS. Although the agency maintains detailed monthly Nassau County foster care schedules by child, it did not perform a reconciliation of payments billed to payments received. A periodic reconciliation of payments received to submitted claims would have immediately identified the overpayments.

Salaries and Wages

The agency overstated salary and wage expenses charged to the County Preventive Services contract and therefore inappropriately received $38,548 from Nassau County for costs that should have been charged to a New York State contract. The agency had failed to perform an adequate review of its contractual allocations prior to submitting the claim and therefore was unaware of this error.

Purchasing

The agency has developed written purchasing and accounts payable procedures that ensure competitive pricing and quality of goods and services. While the policy requires that the agency obtain competitive bids for individual purchases in excess of $10,000, it does not require bidding when multiple purchases of like items from the same vendor are expected to aggregate over $10,000. We found purchases in one year which aggregated in excess of $170,000 from one vendor and $199,000 from another vendor. A better practice would be to require competitive bidding and Board approval where like items to be purchased in aggregate are expected to cost more than $10,000. Such a policy would avoid the appearance of vendor favoritism and assure the acquisition of goods or services of desired quality at the lowest cost.

Allocation of Expenditures to Programs

The expenditure allocation methodology used by the agency is not documented, is outdated and does not reflect actual contract expenses. Although the expenses allocated and charged to the county contract do not exceed budget, the agency should develop a formal written allocation methodology. This methodology should be based on the actual percentage of expenses incurred for each program to ensure that only program expenses are allocated to specific programs.

Other Findings

This report contains additional findings and recommendations in the following areas:

- Rent Expense
- Fixed Assets
- Controls over Time and Attendance Records
- Manual and Computerized Time Record Inconsistencies
- Bank Accounts
- Incorrect Foster Care Billings

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On February 22, 2006, we submitted a draft report to agency senior administrators and the President of the Board of Directors. The agency's comments were received on March 14, 2006. The agency's comments and our response to those comments are included as an addendum to this report (Appendix).

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Duplicate and Over Receipts of Foster Care Revenues

Audit Finding (1a):

mercyFirst was in receipt of duplicate payments in the amount of $420,460 for the care of foster children dating back as far as 2001. According to mercyFirst's controller, the agency was unaware of the duplicate billings until it was contacted by DSS. Although the agency maintains detailed monthly Nassau County foster care billing and account receivable schedules by child, the duplicate payments were not identified as overpayments of accounts receivable or as accounts payable in the agency's general ledger until the county requested that the agency review its payment records. The agency had failed to reconcile Nassau County foster care payments billed to payments received. We noted that the agency's Fiscal Management Policy and Procedure Manual does not provide for such a reconciliation to be performed. At the time of the issuance of this report, an agreement between mercyFirst and DSS for repayment of the $420,460 has been finalized.

Audit Finding (1b):

DSS is responsible for updating the NYS per diem rates in the Benefits Issuance Control System (BICS) on a timely basis but does not always do so. At times, however, mercyFirst was nevertheless aware of the new rates but has not noted rate change differences that it is aware of on submitted claims. As a result, mercyFirst has received incorrect payments. If mercyFirst had a procedure in place for notifying DSS of these changes, the reconciliation process would be shortened.

Audit Recommendation:

The agency should:

a) reconcile monthly foster care payments received from Nassau County to amounts billed, and prepare a formal reconciliation to document the procedure. The county should be advised immediately of any duplicate payments received. An accounts payable or "due to government" account should be established and the funds returned to the county promptly;

b) include an explanation of the payment reconciliation process in its Fiscal Management and Procedures manual; and

c) implement a formal notification process to inform DSS when it becomes aware that DSS is not reimbursing mercyFirst at the appropriate per diem rates.

Salaries and Wages

Audit Finding (2):

In 2004, the agency charged its Nassau County Preventive Services contract $38,548 for salaries related to the non-county Aftercare and Boys Town Parenting Group programs. Time records for four employees whose time was charged to the Preventive Services Contract were examined and all four employees were assigned to departments other than Preventive Services. At our request the agency's controller conducted a review of time and program records for the four month time period of July through October 2004 for these four employees. The review confirmed that $38,548 in salaries was charged to the Preventive Services contract that should have been charged to other programs. The agency does not have adequate supervision over program allocations.

Audit Recommendations:

The agency should:

a) reallocate appropriate Preventive Services expenses to the Nassau County Preventive Services Contract;

b) review monthly program allocations to ensure that all salaries billed to the program relate to Preventive Services, including adequate supervision over this process; and

c) review time and attendance and payroll records to ensure that salaries and wages claimed under the Preventive Services contract relate only to Preventive Services work.

Purchasing

The agency has developed written purchasing and accounts payable procedures to ensure that:

- all goods and products meet appropriate safety standards;
- ensure the quality of goods and products through product comparison;
- ensure competitive prices through price comparisons and requesting bids where appropriate; and
- ensure effective agency expenditures through procedures which facilitate the use of current inventory while permitting quantity purchase discounts.

The agency's policies require that purchases of products and services or capital expenditures:

- in excess of $10,000 must be approved by the agency's Board of Directors. A minimum of three bids are required for these purchases;
- from $5,000 to $10,000 must have CEO approval; and
- from $1,000 to $5,000 require approved by the Chief Financial Officer or Chief Executive Officer.

Audit Finding (3):

We noted a number of instances where purchases from the agency's major vendors did not individually exceed the $10,000 threshold, but when aggregated on an annual basis well exceeded this limit. While not-for-profit institutions are not subject to General Municipal Law (GML), the rules it sets forth represent the public policy of the state. GML §103 states that "Competitive bidding is required when it is known or can reasonably be anticipated, that the aggregate amount to be spent on like items will exceed the competitive bidding threshold over the course of a fiscal year. Generally, items of the same or similar nature which are customarily handled by the same vendor should be treated as a single item for the purpose of determining whether the dollar threshold will be exceeded."

It would have been a better practice if these vendor purchases had been competitively bid and submitted for Board approval. Included were the following vendors for the agency's July 2003 - June 2004 fiscal year:

Vendor	Amount Billed
U.S. Food Service, Inc.	$199,429
Faculty Tutoring Services	174,857
Thermo Quality Mechanical	30,872
L.I. Cooling & Heating, Inc.	22,907

These weaknesses in internal controls can lead to vendor favoritism and abuse when purchasing goods and services on a large scale.

Audit Recommendation:

The agency should secure multiple bids and obtain Board approval when it expects that total payments for goods and services from a vendor will exceed the $10,000 annual threshold.

Non-Secure Detention: Rent Expense

Under the Non-Secure Detention contract with the county, the agency maintains a six bed facility, Whiston Hall, for Persons in Need of Supervision (PINS) and Juvenile Delinquents (JDs) referred by Nassau County. The agency leases its Syosset campus, where the facility is located, from the Sisters of Mercy of Brooklyn (Sisters of Mercy), a related institution. Some members of the leadership team of the Sisters of Mercy are also members of the agency's Board of Directors.

The agency pays rent to the Sisters of Mercy under several separate land and building leases encompassing the 42-acre campus. The agency determines a blended rent expense for one land and two building leases and then allocates approximately 6% of the amount to the Non-Secure Detention contract. In 2003 and 2004 the county paid the agency approximately $8,000 for facility rental expenses.

Audit Finding (4):

We could not substantiate the accuracy of the monthly rent expense charge. The 2002 correspondence between the agency and DSS indicated that one of the leases that was used for determining occupancy charges for the Non-Secure Detention contract had expired, and that a renewal was being negotiated and would be provided to DSS. The lease documentation the agency provided to us did not include a renewal. In addition, there was no monthly invoice from the Sisters of Mercy to substantiate the monthly rent expense amount or an analysis to justify the percentage of rent allocated to the county.

Audit Recommendations:

a) The agency should renew its lease agreements with the Sisters of Mercy for the space occupied.

b) Each month's total rent should be supported by leases, invoices, or bills, documenting the amount of rent paid by the agency.

c) An analysis to justify the percentage of total rent expense allocated to the county should be performed by the agency.

Preventive Services and Non-Secure Detention: Allocation of Expenditures to Programs

The county's contracts with the agency for Preventive Services and Non-Secure Detention provide that expenditures will be claimed and reimbursed through the submission of monthly claim vouchers.

Each contract is supported by a line item budget identifying amounts reimbursable for personnel, fringe benefits, and Other than Personnel Services (OTPS) expense such as transportation, office supplies, utilities, insurance, food, clothing, and activities. The agency may submit claims for each expense category up to the maximum budgeted amount for the contract period. Budget modifications can be submitted to DSS for approval, supported by an explanation of the reason for the request.

Audit Finding (5):

Amounts billed to the county should reflect actual costs incurred for each program. Four claims submitted to Nassau County were reviewed, two for the Preventive Services program and two for the Non-Secure Detention program. Two allocation methodologies were used: some expenses, such as salaries directly related to the programs were billed at full cost, many expenses, including fringe benefits and administrative salaries, were allocated to the programs at a percentage of total costs.

We noted that the percentages used by the agency for its expense allocation methodology, were not up-to-date. The agency's controller advised us that the percentage allocations used were established more than five years ago and that the agency has no studies or other evidence of more recent cost analysis to support the rates.

Expense allocation percentage rates used for the Preventive Services Program ranged from 10% to 100%, with 10% representing the most commonly used rate. Ten percent of the February 2005 Oxford Health Plan health insurance expenses were allocated to the Preventive Services Program; however the full-time employees (who receive health insurance) charged to the program represented only 4% of the employees participating in the Oxford Health Plan.

While employees pay a share of the health insurance expenses, their contribution was not deducted from the health insurance expenses that were charged to the program. The agency's controller observed that regardless of the way fringe benefit costs were allocated, the program's fringe benefit budget is low, and even if the costs were billed based upon a more accurate cost allocation method, the budget maximum would be met. Although we agree that the agency's fringe benefit budget for the program exceeds the amount funded by the county and therefore the expenditures should *not* be disallowed, we disagree with the allocation methodology used, because amounts billed should represent the actual costs related to the programs.

Allocation percentage rates for Non-Secure Detention Program expenses ranged from 5% to 100%, with a 6% allocation used most frequently. Again, percentage rates were not supported by any consistent methodology. For example, on the February 2005 claim workers' compensation was billed at 100%, while life insurance was billed at 5%.

The controller advised us that the agency simplifies claim processing by using bills that are easily documented, such as health insurance, rather than social security and pension expenses that rely on Automatic Data Processing, Inc., reports of what was paid. Once expenditure lines are billed up to the maximum budgeted amount per the contract, no further billing occurs, unless a contract budget modification is requested and approved by the county.

Audit Recommendations:

For billing purposes, the agency should develop a formal, written expense allocation methodology based on the actual percentage of program expenses to total agency expenses. A program cost study should be performed to assist the agency in developing a method of allocating appropriate percentages of indirect labor and OTPS expenses to the Preventive Services and Non-Secure Detention programs on a monthly basis. The allocation method should be reviewed annually by the controller, and adjusted as appropriate based on approved contracts and supporting program budgets.

Fixed Assets

Audit Finding (6):

Section 15 of the county's Preventive Services contract with the agency provides that title to all equipment purchased with funds paid under the agreement vests with the county. Disposal of equipment requires the prior written approval of the county. The agency should maintain a complete and accurate inventory of equipment, with reasonable specificity so the equipment can be readily identified. Section 14 of the Non-Secure Detention contract contains similar provisions.

The records for fixed assets maintained by the agency were deficient. They consist of depreciation schedules for furniture and fixtures, buildings, leasehold improvements, and vehicles. The schedules do not list each item's location, funding source, serial number, or model number and fixed assets were not tagged with unique identifying numbers. Some assets are listed under a description that consists only of the vendor's name.

Audit Recommendations:

The agency should:

a) identify sources of funding of fixed assets, particularly in instances where ownership would transfer to Nassau County or another funding source if the asset was disposed of;

b) list fixed assets in sufficient detail, with model and serial numbers identified where appropriate, so they can be easily identified and located for confirmation purposes; and

c) tag fixed assets with a unique identifying number and include the tag number in the inventory listing.

Time and Attendance Records

Audit Finding (7):

We tested thirteen biweekly pay period time and attendance records for 20 of the agency's employees assigned to the Nassau County Preventive Service, Non-Secure Detention, and Foster Care Programs during the years 2004 and 2005. The following exceptions were noted:

1. three manual *Employees Record of Time Worked*, listing employees' daily attendance for a two-week period, were not signed by the department head as certification of hours worked;

2. on one of the three *Employees Record of Time Worked*, the employee had not signed the card or totaled the hours worked. Instead, the employee's supervisor signed the employee's name and initialed the signature; and

3. *Supervisor Payroll Sheets* list and total employees' hours worked for each biweekly pay period. The computer generated sheets should have a supervisor's original signature, as they are sometimes prepared by support staff rather than the supervisor, according to the agency's controller. On six of the 20 sheets we examined, we noted that the supervisor's signature was either computer generated or rubber stamped on the sheet.

Audit Recommendations:

1. Employees and their supervisors should sign the records of time worked to certify and attest to the hours.

2. Employees should total the number of hours worked each biweekly pay period.

3. *Employees Record of Time Worked* cards should be reviewed by payroll or fiscal staff to ensure that all required signatures have been obtained and that total hours worked is listed.

4. Original supervisor signatures should be obtained on all *Supervisor Payroll Sheets*.

Bank Accounts

Audit Finding (8):

The agency maintains 34 bank accounts for its payroll, program, investment, and special needs. Its main bank account, a business checking account, is maintained at the State Bank of Long Island, and had a $160,904 balance as of April 29, 2005. Our review of the April 2005 bank reconciliation for the account disclosed the following exceptions:

- The reconciliation listed outstanding checks by check number and amount only. The dates of the checks were not listed.

- Forty checks issued by the agency totaling $10,412 had been outstanding for more than 6 months. Twelve of these checks valued at $1,166 were outstanding for more than a year. At the time of the audit mercyFirst had not taken steps to contact its vendors to determine why the checks were not cashed. It had not stopped payment on the checks or issued replacement checks to the vendors. Checks over six months old might not be honored by the banks because a "bank is under no obligation to a customer having a checking account to pay a check, other than a certified check, which is presented more than six months after its date…"[2] These long outstanding checks represent funds which are still owed to mercyFirst's vendors. As a result, its financial statements understate both the cash in banks and accounts payable balances.

The agency's controller advised us that the agency's practice is to review outstanding checks annually, prior to the agency's audit by its outside accounting firm.

Audit Recommendations:

The agency should:

a) list the dates of outstanding checks on its bank reconciliations so that the reviewer is aware how long the checks have been outstanding; and

b) follow-up on old outstanding checks in a timelier manner to determine why they had not cleared and stop payment and reissue the checks as appropriate.

[2] UCC ' 4-404

<u>Limited Operational Review of mercyFirst</u>

<u>Agency Response:</u>

<u>Duplicate and Over Receipts of Foster Care Revenues</u>

Audit Finding la: We do not disagree with the finding that mercyFirst owes Nassau DSS $420,460 due to various duplicate payments made over the past 5 years. Nothing is said however of the more than $1.2 million owed to mercyFirst by Nassau DSS due to difficulty on their part in reconciling payments for services provided by mercyFirst going back to 2001. Up until recently this amount was almost $2.2 million. This situation results in extensive borrowing and interest costs to be borne by mercyFirst for services it provides on behalf of Nassau County. While one would have hoped there would be some recognition on the part of the Comptroller's office for this situation, an agreement between mercyFirst and Nassau DSS to pay back these "duplicate" funds has been finalized.

Audit Finding lb: mercyFirst has continually provided copies of rate changes to DSS as we are notified by New York State Office of Children and Family Services (OCFS) in order to facilitate the processing of claims for the agency. There continues to be old outstanding receivables resulting from retroactive rate increases that still have not been processed by DSS. The retroactive rate increases that the agency has not been reimbursed for go back as far as Fiscal 2001. The implementation of the Statewide Standard of Payment System (SSPS) should resolve the rate issues in the future.

<u>Audit Recommendations:</u>
la - mercyFirst has instituted a policy that requires reconciliation of cash receipts to outstanding receivables. It is the policy of the agency to record overpayments as "Amounts Due to Government Agencies". Additionally, the agency will notify Nassau County upon identification of overpayments.

lb - The agency is in the process of revising its <u>Fiscal Management and Procedures Manual</u> to formally include the above procedures.

lc - mercyFirst will revise its <u>Fiscal Management and Procedures Manual</u> to formally include a procedure for notifying funding sources of rate changes and notification to funding sources of incorrect reimbursement rates.

<u>Management Comment:</u> Given the difficulty that the County has in providing timely payment for services provided at the request of the County, the agency will seek to secure advance payments from Nassau DSS for services to be provided each year.

Auditor's Follow-up:

a) We commend the agency for finalizing the agreement with DSS to pay back the $420,460 in duplicate payments.

b) We concur with the agency's institution of policies requiring reconciliation of cash receipts to outstanding receivables, recording of overpayments as "Amounts Due to Government Agencies", and county notification upon identification of overpayments.

c) We recommend that the agency give a high priority to updating its Fiscal Management and Procedures Manual to document the new policies and procedures.

d) We commend the agency for attempting to structure payments from the DSS on a timelier basis; however, duplicate payments by DSS to mercyFirst are a separate issue from monies owed to mercyFirst by DSS. Each payment issue must be resolved under the contract governing the type of service provided. Payables and receivables cannot be informally netted. We urge mercyFirst and DSS to continue to work to resolve the open issues concerning payments mercyFirst claims are owed to them.

Salaries and Wages

Audit Finding 2: The agency inadvertently billed personnel to the Nassau Preventive Program. The four employees cited actually provide Aftercare Services.

Audit Recommendations 2a - mercyFirst will revise the voucher submitted to Nassau County to delete the improper expenditures and include previously unbilled but applicable expense items. Due to the fact that the program runs at a significant deficit, mercyFirst will not be required to reimburse Nassau County for the improper payments.

2b - mercyFirst is in the process of revising its staff tracking system to ensure that all personnel are allocated to the appropriate program. As a result of the new tracking system, previously noted errors in the allocation of employees should be eliminated.

2c - As part of the regular and on-going billing process, the billing specialist assigned responsibility for the Nassau Preventive Contract will review all staff assigned to the program to ensure that salaries are properly allocated to the program. Additionally, the Senior Accounting Manager has been assigned the responsibility of reviewing the final bill for accuracy.

Auditor's Follow-up:

a) *We concur with the corrective actions being taken by the agency but add that the budget must be amended by DSS to permit the change in expense category and that DSS can only implement the retroactive budget amendment if it is consistent with the requirements of the State;*

b) *We concur with the actions taken to revise the agency's staff tracking system; and to ensure that the billing specialist reviews all staff assigned to the program to determine that salaries are properly allocate. We reiterate that it is essential that a senior staff member review the final vouchers for accuracy, and concur with the agency's assignment of this task to the Senior Accounting Manager.*

Purchasing

Agency Response:

mercyFirst is in the process of reviewing prices of competitive vendors for its food service (formerly U.S. Food Service, Inc.) and its HVAC maintenance and repair (Thermo Quality Mechanical). Based upon the findings of the Nassau County Office of the Comptroller, we will expand our list of vendor reviews to include those expecting to exceed our competitive bidding threshold over the course of the fiscal year.

Audit Recommendation 3 - mercyFirst will revise its Fiscal Management and Procedures Manual to formally include obtaining multiple bids when it is expected that total payments for goods and services will exceed our competitive bidding threshold during the fiscal year.

Auditor's Follow-up:

We concur with the corrective action taken by the agency. In addition to a provision for obtaining multiple bids, stronger internal control procedures would include a revision to the manual requiring Board notification and approval when payments to such vendors will exceed the $10,000 annual threshold.

Non-Secure Detention: Rent Expense

Agency Response:

mercyFirst has reviewed the allocation of rent charged to the program. Based upon space utilization and use of common areas, the total rent allocated to the program is approximately $9,000, slightly more than the amount charged to the contract.

Audit Recommendations 4a - mercyFirst has since renewed its lease agreement with the Sisters of Mercy. A copy of the signed agreement was forward to the Office of the Comptroller.
4b - The agency will ensure that all leases are current.
4c - A formal analysis of the rent charged to the program has been prepared.

Auditor's Follow-up:

We concur with the corrective actions to be taken. mercyFirst should also ensure that the formal analysis of the rent charged to the program is forwarded to DSS with its next Non-Secure Detention program budget.

Preventive Services and Non-Secure Detention: Allocation of Expenditures to Programs

Agency Response:

The actual fringe rate for mercyFirst is approximately 19%. We understand the inconsistent methodology previously used by the agency causes confusion, however, the overall amount allocated is comparable to the amount that would have been allocated using the agency's fringe rate.

Audit Recommendation-The agency will develop a formal, written expense allocation methodology. Additionally, we are in the process of developing a method for allocation of indirect labor and OTPS to various programs. This is being developed in conjunction with our annual budget preparation process for the new budget year that begins July 1.

Auditor's Follow-up:

We concur with the corrective action being taken by the agency. The written expense allocation procedures should include a provision for an annual review of the allocation method by the Comptroller or a senior manager, and adjustments as needed. Please ensure that the new indirect labor and OTPS allocation schedules are forwarded to DSS with your next Non-Secure Detention and Preventive Services program budgets.

<u>Fixed Assets</u>

<u>Agency Response:</u>

The agency concurs with this finding. Our current method of tracking fixed assets does not provide sufficient information to meet the requirements of the County nor our own.

<u>Audit Recommendation 6a</u> - We will review our current process for tracking fixed assets. However, the agency is in the process of identifying new accounting software for use by the agency. As part of the selection process, we will attempt to secure accounting software that contains a fixed asset module that addresses the need to identify the funding source used to acquire the assets.
6b - We will also include the requirements for asset identification as part of the specs for the fixed asset module.
6c - The agency will research a product that will allow us to provide asset identification for all assets acquired by the agency.

<u>Auditor's Follow-up:</u>

We concur with the corrective actions to be taken by the agency. During the research process, we recommend that the agency use an alternate method to track any assets purchased with county funding, such as EXCEL or ACCESS. This will ensure that the agency is in compliance with the equipment provisions of the Preventive Services and Non-Secure Detention contracts.

<u>Time and Attendance Records</u>

<u>Agency Response:</u>

Agency policy requires that all employees and supervisors sign time cards and all supervisors approve the supervisor sheets for their respective staff. The missing approvals are exceptions to this policy.

<u>Audit Recommendations 7-1:</u> The agency has implemented the E-Time system through our ADP payroll that requires employees to hand-scan which tracks actual hours worked for each employee. Accordingly, only supervisor approval of time is necessary. We are in the process of eliminating all manual time cards and supervisor sheets. All supervisors will be required to approve employees' time in the E-Time System.
7-2: The E-Time system automatically totals employees' hours for each bi-weekly pay period.
7-3: Payroll staff have been instructed to obtain all missing employee and supervisor signatures on time cards and supervisor sheets until manual records are completely phased-out. 7-4: Payroll staff has also been instructed to obtain all original signatures on supervisor sheets until manual records are completely phased-out.

Auditor's Follow-up:

We concur with the corrective actions taken by the agency.

Bank Accounts

Agency Response:

We concur with this finding.

Audit Recommendations-8a - The agency has instituted a policy requiring check dates on all outstanding checks.
8b - The agency is currently reviewing outstanding checks on a monthly basis and determining the appropriate dispensation of the outstanding check.

Auditor's Follow-up:

We concur with the corrective actions taken by the agency.