

**BROOME COUNTY
DEPARTMENT OF
AUDIT AND CONTROL**

BROOME RECIPIENT AFFAIRS OFFICE, INC.

REVIEW OF CORRECTIVE ACTION PLAN

March 2005

Alex J. McLaughlin, Comptroller

March 29, 2005

Mr. Arthur R. Johnson
Commissioner
Broome County Department of Mental Health

Commissioner Johnson:

At your request, we have completed a review of the status of corrective actions implemented by the Broome Recipient Affairs Office in response to recent audits by the New York State Office of Mental Health and Davidson Fox & Company.

Our objective was to determine the extent to which the Broome Recipient Affairs Office (RAO) has developed and implemented policies and procedures to correct internal control weaknesses identified in the above referenced reports. Our scope was limited to a follow-up on items identified in these reports. We relied on the work of auditors from the New York State Office of Mental Health and Davidson Fox & Company to be a comprehensive and accurate review of the RAO's internal controls. Our fieldwork was limited to testing to verify that previously identified weaknesses had been addressed.

Although RAO has not yet developed and implemented policies and procedures to fully address all issues raised in the recent reports, it is our opinion that the Agency has conscientiously and adequately addressed the most serious governance and financial management issues and that, with the adoption and implementation of our recommendations in this report, the risk of the Agency being unable to meet its objectives due to failure in these areas will be reduced to an acceptably low level.

The results of our review are outlined on the following pages.

Sincerely,

Alex J. McLaughlin
Broome County Comptroller

cc: Elizabeth R. Hayes, Executive Director, RAO
Barbara J. Fiala, Broome County Executive
Daniel A. Schofield, Chairman of the Legislature
Louis P. Augostini, Clerk of the Legislature
Members of the Legislature

Background

The Broome Recipient Affairs Office, Incorporated (RAO) is a not-for-profit mental health agency. The Agency's mission is to provide peer counseling services to people struggling with mental health issues. The Agency is, by design, managed and staffed, primarily, by people who have dealt with, or are dealing with, mental health issues of their own.

Broome County contracts with the Agency to provide these peer counseling services to the community. The County is virtually the sole source of funding for the Agency's nearly quarter million dollar budget.

Recently, the Agency has been roiled by scandals involving the previous Executive Director and his Assistant. The fallout from these scandals included two critical reviews of the Agency's governance and internal control systems.

Broome County's Commissioner of Mental Health and Social Services asked our Department to complete this review in order to provide a basis for informed decision making with regard to the County's continuing to engage the Agency as a contractor.

We reviewed both the New York State Office of Mental Health audit and the Davidson Fox & Company audit. We also reviewed RAO's Corrective Action Plan, interviewed RAO staff and management, reviewed RAO policies and procedures and conducted such testing as we determined was required.

Status of Required Corrective Action – Broome Recipient Affairs Office

1. Vehicle Usage

Agency policies and procedures do not specifically prohibit personal use of agency vehicles. The logs described in the Agency's Corrective Action Plan have not been developed or implemented. In fact, the current Executive Director is using a company vehicle for business and personal mileage and compensation for personal use is not being properly reflected in Agency payroll records.

We did examine evidence to confirm that the former Executive Director had been billed for the value of his personal use of the Agency vehicle. Although the Agency was not repaid for this use, the Agency did not issue an amended W-2 for the former Executive Director reporting the value as compensation.

2. Gasoline Credit Cards

Agency policies and procedures do not specifically prohibit personal use of gasoline credit cards.

The former Executive Director was not billed for his personal use of Agency gasoline credit cards. No funds associated with such use were returned.

3. Health Insurance

No employees are presently offered or provided with health insurance. A review of Agency disbursements for a three month period (December 2004-February 2005) revealed no payments for any health insurance coverage.

4. Miscellaneous Expenditures

Policies and procedures have been developed to require a routine review of expenditures. Said review is being completed and documented.

The former Executive Director was billed for miscellaneous personal expenditures made with Agency funds. No funds have been recovered.

5. Cellular Phones

Agency policies and procedures do not specifically prohibit personal use of Agency cell phones. The logs described in RAO's Plan of Corrective Action are not being maintained.

6. Equipment

An itemized bill for missing equipment was sent to the former Executive Director. Missing, were 33 items of equipment valued at over \$13,000. Returned, were 7 items, valued at \$2,284. We were not able to confirm that any action has been taken to recover the balance of the missing equipment.

7. Petty Cash

Appropriate policies and procedures for petty cash have been developed and implemented.

8. Board Oversight

Board members attended Achieving Excellence in Governance offered through the New York State Board Training Consortium in December 2004. The syllabus for the training session indicates that financial oversight responsibilities were covered.

Board minutes are being properly maintained and approved.

9. Electronic Data Processing

Appropriate policies and procedures for computer system backup have been developed and implemented.

10. Segregation of Duties

The Agency has developed and implemented written policies that provide adequate separation of duties considering the limited size of the Agency's administrative staff. Adoption of our recommendation regarding organizational structure and reporting hierarchy, included elsewhere in this report, would further strengthen the Agency's position with regard to segregation of duties.

11. Office Organization

An organized filing system has been put in place. All records that we requested were provided quickly and accurately by Agency staff.

12. Timesheets/Pay Rates

All timesheets that we reviewed had been properly approved by a supervisor. Adequate pay rate documentation was maintained in each employee personnel file that we reviewed.

13. Check Signature Policy

The Agency's policy continues to require two signatures for check amounts in excess of \$1,000. Our review of three months of disbursements did reveal one instance wherein this policy was not adhered to. Check number 1639, issued on December 29, 2004, in the amount of \$1,450, was signed only by the Executive Director.

14. Code of Conduct

A formal, written, Code of Conduct has been developed by the Agency. At the time of our fieldwork, however, said policy had not yet been distributed to, or acknowledged by, the employees.

Recommendation:

RAO has a limited number of administrative staff. In order to achieve a proper segregation of responsibilities as pertains to fiscal administration, the Fiscal Officer should be provided with a measure of independence from the Executive Director. We recommend that the Agency's organizational structure and reporting hierarchy be changed so that the Fiscal Officer reports directly to the Board of Directors and is not hired by, supervised by, evaluated by, compensated by or dismissible by the Executive Director.

Other Matters

During the course of our engagement, matters have come to our attention that require management's attention. Specifically, the Agency seems poised to run out of funds required to meet its obligations before its next scheduled influx of County money.

The Agency's cash on hand does not appear to be adequate to meet even payroll obligations that are expected to come due prior to any receipt of additional money.

Broome Recipient Affairs Office Inc.
Management Response

1. Vehicle Usage

The personal mileage will be properly reflected in payroll records following the recent receipt of records to record and charge such personal expenditures.

The agency, in consultation with an attorney firm (Hinman, Howard, & Kattell, LLP), an outside accounting firm (Johnson, Lauder & Savidge, LLP) as well as the Broome County District Attorney's Office, will more than likely prepare IRS Form 1099 for the years as required in the funds reporting requirements that deal with the prior Executive Director as suggested within the OMH Audit report dated September 8, 2004.

2. Gasoline Credit Cards

At the RAO board meeting on March 21, 2005, a formal addition to the RAO policy and procedures manual was made to include the following policy: "ALL employees are prohibited from using the agency gasoline credit cards for personal use. NO EXCEPTIONS."

In regards to the former Executive Director's use of gasoline credit cards, please see item # 1 for our activity direction.

3. Health Insurance

No comment.

4. Miscellaneous Expenditures

An insurance claim is in process.

5. Cellular Phones

At the RAO board meeting on March 21, 2005, a formal addition to the RAO policy and procedures manual was made to include the following policy: "ALL employees are prohibited from using the agency issued cell phones for personal use. If an employee uses the cell phone for personal use, they are to immediately contact the Executive Director with an explanation of the call(s). Reimbursement shall be required for all personal use."

6. Equipment

An insurance claim is in process.

Broome Recipient Affairs Office Inc.
Management Response

7. Petty Cash

No comment.

8. Board Oversight

No comment.

9. Electronic Data Processing

No comment.

10. Segregation of Duties

No comment.

11. Office Organization

No comment.

12. Timesheets/Pay Rates

No comment.

13. Check Signature Policy

The agency will continue due diligence in requiring all checks that exceed \$1000 have the required (2) signatures as noted in the policies and procedures manual.

14. Code of Conduct

The code of conduct will be reviewed and acknowledged by signature of all RAO employees by March 25, 2005.

Recommendation

This recommendation was presented to the RAO Board of Directors on March 21, 2005. The motion was made and passed unanimously. The policy now reads: In order to achieve a proper segregation of responsibilities, the Financial Officer shall report directly to the Board of Directors.

