

**Nassau County  
Office of the Comptroller  
Field Audit Bureau**



**Limited-Scope Financial Review  
of the  
Nassau County Department of  
Drug and Alcohol Addiction -  
Grant Activity**

**HOWARD S. WEITZMAN**  
*Comptroller*

**FA-02-05**

**May 3, 2005**

*NASSAU COUNTY*  
OFFICE OF THE COMPTROLLER

HOWARD S. WEITZMAN

*Comptroller*

Jane R. Levine

*Chief Deputy Comptroller*

Manuel Mosquera

*Deputy Comptroller  
for Audits and Special Projects*

Susan D. Wagner

*Deputy Comptroller  
for Operations – Chief of Staff*

Randy Ghisone

*Deputy Comptroller  
For Accounting*

Allen M. Morrison

*Director of Communications*

Bruce G. Kubart

*Deputy Director of Field Audit*

Audit Staff

Alfred Wells

*Field Audit Supervisor*

Michael Grunwald

*Field Auditor*

# EXECUTIVE SUMMARY

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## **Background**

The mission of the Nassau County Department of Drug and Alcohol Addiction (“department”) is to provide programs that help those who are recovering from chemical (drug and alcohol) dependency to regain a productive place in society. The department does this by acting as a conduit and government administrator for funding from county, state, and federal sources to community, school and hospital-based organizations in Nassau County.

The department contracts with approximately 90 agencies for the provision of treatment services. In addition, the department provides direct treatment and prevention services to those unable to afford private sources of treatment. The department provided long-term inpatient care during the audit period of 1996-2001; however, the county administration discontinued this program in 2003.

State and federal funding for chemical dependency programs is provided through the New York State Office of Alcoholism and Substance Abuse Services (“OASAS”) and other, smaller grants. For 2001, OASAS approved up to \$24.9 million in aid to fund programs in Nassau County. The department reports expenditures to OASAS that are to be reimbursed via quarterly claims and Consolidated Fiscal Reports (“CFR’s”) completed by contract agencies and the department.

In October 2002, this office released a preliminary desk review of the grant fund balances of the department for the period 1996-1999. The review found that nearly \$9 million in grant fund expenditures were improperly reported in the county’s general fund, adversely impacting the county’s general fund balance. These charges were due to accounting errors stemming from the failure to reconcile yearly grant activity on a timely basis. Reconciliations must be performed to ascertain that expenditures and revenues were properly accounted for in the grant and general funds for each fiscal year. In fiscal year 2002, the department transferred \$4 million in surpluses from the 1996 and 1997 grant fiscal years into the general fund.

The failure to properly reconcile and account for grant funds was noted in prior audits and desk reviews. A 1995 desk review found a deficit in the grant fund of approximately \$7 million, covering the period 1980-1993. An audit report, issued in 1998, covering the years 1995–1997, found a lack of procedures for grant accounting and a failure to perform reconciliations.

## **Audit Scope, Objective and Methodology**

Our audit was limited to the accounting for grant revenues and expenditures for the period 1996 through 2001. We also performed a brief review of subsequent activities to determine if the conditions found during the audit period were continuing. This audit was performed to ensure that the department was appropriately accounting for and monitoring the expenditures and revenues related to grants from various sources.

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Grant accounting requires that any expenditure recorded in the grant fund be based on anticipated funding sources other than Nassau County, and that when such funds are received, they will match (or contribute to funding for) the expenditure. Any expenses that are not subject to full reimbursement by external sources should be initially recorded into the general fund and then transferred back to the appropriate grants by means of journal entries in the same fiscal year. Grant revenues should be recorded in the grant fund and matched against the expenses incurred under the grant. It is the responsibility of the department to monitor yearly grant activity to ensure proper accounting treatment.

This audit was conducted in accordance with generally accepted government auditing standards. These standards require the audit be 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 any 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**

There is a net surplus of \$3.4 million remaining in the department's grant funds for the fiscal years of 1996 through 2001. This comprises a surplus of \$4.6 million in the grant accounts for the fiscal years of 1996 through 1999, partially offset by a deficit of \$1.2 million in the grant fund covering fiscal years 2000 and 2001. Our audit found that the grant management function is inadequate in the following areas:

- The department has not established written procedures requiring yearly reconciliations and monitoring of grant activity to ensure that expenditures and revenues are matched when all the activity in a grant year has been completed;
- The department has budgeted and recorded expenditures, including personnel costs that are not funded by grants in the grant funds rather than in the general fund. The department has not always corrected this improper accounting and budgeting by transferring these expenditures to the general fund;
- Management reports related to the reconciliation and accounting for quarterly and yearly grant activity are not being prepared;
- Salary expenditures were recorded in incorrect grant years, and

We also found that the department did not reconcile the 2001 New York State Schedule Certified Quarterly Report ("CQR") to the OASAS final approval letter worksheet. This reconciliation should be performed to prove that the final state aid reimbursement to the county for the expenditures incurred by each vendor is the same as the amount of

# EXECUTIVE SUMMARY

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OASAS-approved funding by vendor; including the maximum state aid and the county share of expenditures by vendor.

As a result of not performing reconciliations, the department was unaware that it failed to collect \$392,000 in state aid to which it was entitled. After we brought this to the department's attention, it submitted our finding to OASAS. OASAS concurred and remitted \$392,000 to the county.

Although our audit scope did not include 2002 or 2003, we noted that as of August 11, 2004, the county's financial system reflects a grant surplus of \$5.3 million and \$6.5 million for 2002 and 2003, respectively. However, because the department has not prepared reconciliations showing the remaining expenditures and revenues, we are unable to project a final surplus or deficit for fiscal periods through 2003.

## **Department's Response**

The matters covered in this report have been discussed with the department officials during the audit. On January 20, 2005, we submitted a draft report to department officials with a request for comments. The department's comments, received on February 18, 2005, and our responses to those comments, are included as an Appendix to this report.

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# FINDINGS AND RECOMMENDATIONS

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## **Grant Surpluses and Deficits**

### **Audit Finding (1):**

Grant fund accounting permits expenditures to be recorded in the grant fund only when they are fully reimbursable by grant revenues. For example, if the department has a contract with a vendor, and 50 percent of the expenditure is funded by a source other than the county, then all the expenditures incurred under the contract should be initially recorded in the general fund and then transferred to the grant fund to match grant revenues. The expenditures are to be recorded directly in the grant fund only if the contract is 100 percent grant-funded.

For the periods July through December of 1999 and 2000, and from October to December 1996, we found that the department did not determine and transfer grant-funded expenditures initially posted in the general fund to the grant fund. This resulted in the grant fund balance being misstated, as the grant revenues funding these expenditures were recorded in the grant fund while the expenditures were recorded in the general fund. The general fund balance was also misstated because expenses were charged to it that was reimbursable under the grant.

As a result, the grant funds show fiscal year surpluses and/or deficits. A surplus occurs when the department posts revenues to a grant fund that are unmatched by expenditures, and conversely, a deficit occurs when expenditures are posted to the grant fund without offsetting revenues.

The department accounts for yearly grant revenues and expenses under many different grant programs within the county's financial system, the Nassau Integrated Financial System ("NIFS"). We found that these expenditures and revenues, by individual program and by the total grant, were not reconciled and contain surplus and/or deficit balances for each year. The grant revenues should equal the grant expenditures to show internal and external accountants/auditors that the grants have been reconciled and closed.

Based on our examination, and our understanding that there are no outstanding vendor claims, the chart below summarizes by fiscal year (1996 through 2001) the net grant fund surplus of approximately \$3.5 million:

# FINDINGS AND RECOMMENDATIONS

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| <b><u>FISCAL<br/>YEAR</u></b> | <b><u>NIFS<br/>SURPLUS/<br/>(DEFICIT)</u></b> |
|-------------------------------|---|
| 1996                          | \$ 0  |
| 1997                          | (10,130)                                      |
| 1998                          | 1,499,992                                     |
| 1999                          | 3,153,655                                     |
| 2000                          | (868,035)                                     |
| 2001                          | <u>(342,724)</u>                              |
| <b>Total</b>                  | <b><u>\$ 3,432,758</u></b>                    |

As of August 11, 2004, the 2002 and 2003 grant year balances reflected net surpluses (revenue received to date less expenditures paid to date) of \$5.3 million and \$6.5 million, respectively. The department could not provide reconciliations for the 2002 and 2003 fiscal years showing the remaining unpaid expenditures and/or uncollected revenues that would show the anticipated final surplus and/or deficit.

Our audit findings help explain the yearly surpluses and/or deficits, and detail our conclusions. During our audit, we noted that the apparent surpluses in some years resulted from improper accounting, rather than from the receipt of state aid in excess of grant-related expenditures.

## **Audit Recommendations:**

The department should:

- a. reconcile each of the grants and review our estimates of surpluses and deficits for 1996 through 2001;
- b. perform a reconciliation of the 2002 and 2003 grant funds to determine if a surplus or deficit exists for those years;
- c. ensure that there are no deficits related to the 2002 -2003 grant years before recognizing 1996 through 2001 net surplus as revenue in the general fund;
- d. ensure that the revenues and expenses within a grant year agree on an individual index code basis and in the aggregate;
- e. eliminate the need for transfers by accurately identifying the contract agencies for which expenditures are fully grant-funded and paying those agencies out of the grant fund;
- f. initially record expenditures that are not fully grant-funded in the general fund and then transfer the expense to the grant fund.

# FINDINGS AND RECOMMENDATIONS

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## **Written Procedures and Reconciliations of Grant Activity**

### **Audit Finding (2):**

The department has not established a proper system of internal controls covering all aspects of grant accounting. We also found that the department does not regularly perform periodic reconciliations of yearly grant activities. As a result, the department is unable to determine in a timely manner whether the grant fund activity has been properly accounted for; that is, the total expenditures equaling the total revenues in the same fiscal period.

The department has no written procedures or job descriptions in place outlining the duties and responsibilities of each employee, including reporting requirements to ensure that the assigned tasks are performed on a timely basis.

During the audit period, we found that there was no effective management reporting system in place for yearly grant activity. For example, the department does not produce a quarterly report, including an end-of-year reconciliation showing the expenditures and revenues posted to the grant fund, along with supporting documentation to support the conclusion that the expenditures posted to the grant fund are fully funded when compared to OASAS tentative and/or final approved budget. The department is not reconciling expense and revenue balances in the Financial Accounting Management Information System (FAMIS).<sup>1</sup> These weaknesses were pointed out in our previous audit report, which recommended the establishment of financial activities reports and reconciliations.

This lack of effective reporting systems and written procedures has resulted in the department not:

- promptly identifying whether the grant activity has been properly reported;
- ensuring that only fully funded expenditures are initially recorded in the grant fund;
- ensuring that expenses partially grant-funded are initially recorded in the general fund and then transferred back to the grant fund; and
- ensuring that all grant revenues are recorded and remain in the grant funds to cover the grant expenditures.

Timely reconciliation and identification of discrepancies would allow the department to make necessary corrections within both the general and grant funds before the close of each fiscal year.

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<sup>1</sup> FAMIS is the accounting module of NIFS (Nassau Integrated Financial System)  
Limited-Scope Financial Review of the Nassau County Department of Drug and Alcohol Addiction-Grant Activity

# FINDINGS AND RECOMMENDATIONS

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## **Audit Recommendations:**

The department should establish and implement written procedures to address the identified weaknesses. It should review and implement the County Comptroller's Directive Number 2, found on the County Comptroller's website <http://www.co.nassau.ny.us/comptroller/Directives.html>. The directive "Internal Financial Controls" requires that all departments maintain an operating manual to "document its policies and procedures specific to its financial operations." including financial control measures.

This is necessary to assure that there are adequate internal controls and procedures in place to properly record transactions and monitor the general and grant fund on a fiscal year basis. The procedures should be comprehensive and require quarterly financial and managerial reports. The reports should allow management to verify that:

- the expenditures initially posted to the grant fund are fully grant-funded, and that the final approved state budget has not changed this status;
- any grant expenditure not fully funded have been initially recorded in the general fund and then identified and transferred back to the grant fund; and
- grant revenues are posted to the grant fund to cover quarterly grant expenditures.

The department should maintain appropriate documentation to support the report's conclusions. Additionally, reconciliations should be prepared quarterly, and before the close of the fiscal year in which all entries are made, to assure a proper accounting for revenues and expenditures in the grant and general funds. These reconciliations should verify that the expenditures posted to the grant fund are fully grant-funded, and that any expenditures identified as not being fully funded in the grant fund have been recorded into the general fund.

# FINDINGS AND RECOMMENDATIONS

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## **Reconciliation of F/Y 2001 State Aid**

### **Audit Finding (3):**

The final settlement of monies due the county for 2001 was less than the state's OASAS had approved. It appears that the major reason for the reduced amount is that the vendors spent less than had been approved. The reason for the shortage, however, could not be validated, because the department had not reconciled the following documents to each other:

- a. the New York State Schedule "CQR," which shows the final state aid reimbursement to the county for the expenditures incurred by each vendor contracted with the department; and
- b. the OASAS final approval letter worksheet detailing the approved funding by vendor; including the maximum state aid to be received and the county's share of the expenditures by vendor.

A reconciliation of the amounts approved to the amounts spent and reimbursed would have ensured that the department had been properly reimbursed for approved costs. Our prior audit recommended that the department closely monitor revenue received from the state. The department informed us that procedures were being put into place to reconcile the "CQR" report to OASAS final approval letter annually.

We compared the New York State Schedule "CQR" to the OASAS final approval letter to determine if the final state aid reimbursement agreed with the approved funding. We found that the county share of expenditures for one vendor, per the CQR schedule, was \$392,000 higher than the county's share per the OASAS final approval letter. We also found that the OASAS-approved budget for the county share of the expenditures should have been \$288,000; however, the CQR report showed the county share of expenditures as \$680,000. The department was not aware of the discrepancy in the county expenditure share until we questioned it. The department then contacted OASAS, which concurred with our finding that the county should only incur \$288,000 in expense, and remitted an additional \$392,000 in state aid.

According to the department, OASAS indicated that both the vendor and the department had submitted a CFR (a detail fiscal year summary of vendor expenditures, revenues and funding sources for providing treatment services); the OASAS, however, claimed it used the CFR submitted by the vendor to determine the county share of expenditures. OASAS indicated that the vendor's CFR was incorrect. Correct procedures require that the vendor submit its CFR to the department for review and approval. The department should then submit the CFR to OASAS.

# FINDINGS AND RECOMMENDATIONS

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## **Audit Recommendations:**

The department should:

- a. establish procedures to ensure that the final state aid settlements reconcile with the OASAS final approval letter worksheet; and
- b. remind the vendors of the proper procedures to follow concerning the submission of CFR's.

# FINDINGS AND RECOMMENDATIONS

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## **Allocation of Personnel Expenses**

### **Audit Finding (4):**

During the audit period, the department had approximately 100 employees whose salaries were budgeted and paid out of the grant fund. In only 32 cases, however, were these salaries completely grant-reimbursable, while in the remaining 68 cases, they were partially reimbursable. (Of that 68, 28 were only 17 percent reimbursable.) Of the \$3.5 million in salary expenditures for these employees budgeted for 2003, \$1.4 million was funded by grants.

The only employee salaries that should be budgeted and recorded to the grant fund are those that are 100 percent reimbursable through grant funds, as is the case with contract expenditures. Those salaries not 100 percent reimbursable should initially be budgeted and charged to the general fund. The grant-funded portion of the salaries should then be transferred to the grant fund. The 68 employee salaries that were only partially reimbursable should thus have been recorded in the general fund, with the grant-funded portion transferred back to the grant fund.

The department recognized that its accounting was incorrect. To correct the accounting treatment for each year, the department transferred salary expenditures (via journal entries) from the grant fund to the general fund. However, in 2000, the department made salary expense transfers from the grant fund to the general fund for only the first seven months. Salary expenditure transfers were not made for the last five months of the year, resulting in an overstatement of the grant fund expenses and an understatement of the general fund expenses. The department informed us that the salary expense for the remaining five months, approximately \$635,000, was not transferred because the general fund did not have a sufficient budget to cover the expense transfers.

The Local Government Unit (“LGU”)/Administration section of the department’s CFR for 2000 covers county expenditures related to the administration of the state aid for drug and alcohol programs run by outside vendors and the county. Our examination of this budget area showed that \$705,482 in total expenses (personnel and non-personnel) was reimbursed by state aid. However, supporting documentation obtained from the department showed that LGU salary expenses of \$1,339,871 were recorded in the grant fund.

### **Recommendation:**

The department should ensure that all expenditures are recorded and budgeted in the correct fund. According to the department, adjustments were made to the 2004 budget so that it shows those employee salaries that are only partially funded by grants as being paid out of the general fund. Only fully funded personnel (approximately 30-40) will be charged directly to the grant fund, with the remaining employees’ salaries, i.e., those partially funded by grants, initially budgeted and paid from the general fund (with appropriate transfers back to the grant fund prior to the close of the fiscal year).

## FINDINGS AND RECOMMENDATIONS

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The department should reconcile on a quarterly basis the total salaries recorded in the grant and general funds to total actual salaries paid to the employees to assure that:

- only those employee salaries that are 100 percent reimbursable are being charged directly to the grant fund;
- the employees salaries that are not 100 percent grant-funded are initially charged to the general fund; and
- that prior to the end of the fiscal year, the grant-funded portion of partially grant-funded employees has been transferred back to the grant fund.

The department should also verify the funding status of employees at the end of the fiscal year to reconfirm the assumptions used to determine whether to charge the grant or general fund and to make any necessary corrections.

# FINDINGS AND RECOMMENDATIONS

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## **Salaries not Charged to the Proper Year**

### **Audit Finding (5):**

We found that salary expenditures are not posted to the proper grant year for the first few months of each year. Each grant, and each grant year, has a specific account code to ensure that expenses and revenues are segregated and recorded by specific grant. However, we found that the department did not change the account coding of salary expenditures after the end of the fiscal year. Without this change, the subsequent fiscal year salary expenses continued to be charged to the previous grant year. This practice has continued for several years; in 2002, the coding was not corrected until May, and in 2003, it was not corrected until April. These corrections were not retroactive, which resulted in expenses being charged to the wrong grant year along with misstatement of expenses in each fiscal year.

We also found that termination pay totaling \$10,593, paid in January 2004, was charged to the 2001 grant fund. We understand that this termination pay will be included as part of the 2004 grant year billing. The expenditure should have been charged to the 2004 grant year.

### **Audit Recommendations:**

The department should:

- ensure that the employees' salary expenses are recorded to the correct grant year, effective at the beginning of each year; and
- transfer the 2003 salary expenditures recorded to the 2002 grant year to the 2003 grant year.

The department should not transfer any salary expenditures that were incorrectly reported in prior years (1996 through 2001), as these years have been closed and there should be no further activity in these grant years.

Reconciliations should be performed to determine that expenses are charged to proper grant years. The \$10,593 was incorporated in the net surplus/deficit included in Audit Finding 1; therefore the department does not need to take corrective action for this item. When performing reconciliations of grant activity, the department should identify payments of termination pay being charged to prior years and ensure that they are included in the billings.

# FINDINGS AND RECOMMENDATIONS

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## **Byrne Grant-Reporting and Recording**

### **Audit Finding (6):**

The department received a Byrne Grant from the United States Department of Justice under a program to reduce and prevent illegal drug activity. This grant covered the period April 2000 through October 2002, and was not renewed. The department did not properly account for the Byrne grant revenues and expenditures. The entire grant revenue of \$899,935 was recorded in the 2000 grant year, even though only \$197,370 of the related grant expenditure was recorded to that year. As a result of both mismatching yearly revenues and expenditures and not performing grant reconciliations, the grant fund balance was overstated in one fiscal year and understated in the other fiscal years.

The Byrne Grant is a federal grant; however the department recorded the grant revenue as state aid instead of federal aid. According to the federal Office of Management and Budget's ("OMB") Circular A133, an award recipient must include a schedule in its financial statements that includes "total Federal awards expended for each individual Federal program and the CFDA<sup>2</sup> number of other identifying number when the CFDA information is not available."<sup>3</sup> As a result of the department's misclassification of the receipts, they were not identified as federal monies and were not included in the required schedule of the Single Audit Report.

Without proper disclosure;

- the county is in violation of OMB's disclosure requirements;
- these receipts will not be included in the population of items from which the counties outside auditors make test selections. Therefore, the receipts are not subject to audit.

The department did not maintain contemporaneous records accounting for the grant expenditures. When the auditors requested an accounting, department personnel indicated that this information would have to be compiled.

### **Audit Recommendations:**

The department should:

- a. ensure that all federal grant cash receipts are properly reported and recorded; and
- b. monitor and maintain contemporaneous records and analysis of the grant activity to ensure grant revenues and expenditures match for each year.

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<sup>2</sup> Catalog of Federal Domestic Assistance

<sup>3</sup> Office of Management and Budget Circular A-133 §310 (b) (3) (1997)

Limited-Scope Financial Review of the Nassau County Department of Drug and Alcohol Addiction-Grant Activity

# FINDINGS AND RECOMMENDATIONS

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## Open Encumbrances

### Audit Finding (7):

The department has not disencumbered all outstanding encumbrances no longer needed to pay contractual liabilities. These encumbrances represent funds set aside to pay claims for services incurred through contracts with vendors. This finding was included in our last audit.

An outstanding encumbrance can occur when the amount encumbered by the department is not expended by the vendor to perform the contracted services. As of August 11, 2004, we found there was a total of \$2,618,220 in open encumbrances related to years 1996-2001 that are deemed closed and for which there should be no further activity. The balances are as shown below:

| <u>Year</u>  | <u>Open<br/>Encumbrance</u> |
|--------------|-----------------------------|
| 1996         | \$ 165,462                  |
| 1997         | 170,887                     |
| 1998         | 863,700                     |
| 1999         | 249,157                     |
| 2000         | 824,633                     |
| 2001         | 344,283                     |
| <b>Total</b> | <b><u>\$2,618,220</u></b>   |

Additionally, there are open encumbrances of approximately \$397,000 for 2002 and \$1,322,000 for 2003; however, these years have not been closed. The department informed us that all vendors have been paid in full for services rendered in these years, and OASAS has completed its review and made final settlement of monies due.

### Audit Recommendation:

The department should establish and implement procedures for reviewing open encumbrances in a timely manner to determine if the funds should be disencumbered. Encumbrances should be disencumbered when it is determined that there are no additional liabilities to be paid against the encumbrance. Charges cannot be posted against a grant unless there is an encumbrance balance. The disencumbrance of unexpended funds will prevent unintentionally posting charges against a completed grant.

# FINDINGS AND RECOMMENDATIONS

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## **Timely Billings by Vendors**

### **Audit Finding (8):**

We found that payments to contract agencies for services have been continuing well into subsequent grant fiscal years. This is due to vendors submitting claims late, or the department rejecting claims back to the agencies for correction, and the vendor not promptly amending the claim. For example, we found that some agencies that provided services in 2001 were not paid for those services until two or three years later. The department is unable to close a grant year until all expenses incurred under the grant are paid.

### **Audit Recommendation:**

We recognize that vendor contracts subsequent to the audit period include a requirement that claims be submitted no later than three months following the county receipt of the services that are a subject of the claim. The department should establish procedures to ensure that these contract terms are enforced so that contract agencies submit their final claims in a timely manner.

## Departments Response and Auditor's Follow-Up

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### APPENDIX

#### **Audit Finding (1) Grant Surpluses and Deficits:**

##### **Department response:**

The Department agrees that it was recording personnel expenses in the Grant Fund for a large number of staff who were less than 100% reimbursable. Beginning in 1996, the Department made annual requests to the Office of Management and Budget for permission to budget for these staff in the Department's annual General Fund budget request. Each of these requests was denied under the prior County administration due to a reluctance to show an increase in the headcount in the General Fund. Therefore, the Department continued the practice of charging payroll and fringe benefits expense to the Grant Fund for these personnel, and journaling these expenses to the General Fund. In 2003, the Department received approval from the Office of Management and Budget and the County Executive's Office to properly assign personnel to the 2004 General and Grant Funds, resulting in a proper budgeting and assignment of costs and appropriate fiscal alignments beginning in 2004.

Additionally, the Department now carefully assigns contracts into the General or Grant Fund depending on the percentage of reimbursement available for each program. The Department utilizes the NYS OASAS's Approved State Aid Funding Authorization Schedule to determine the approved funding level for each program. Since the State has reworked its timetable for the issuance of this schedule, the current timing of its release makes it readily available for the Department's use.

***The contracts in the General Fund for which the Department receives partial reimbursement are Local Assistance contracts which require a County match. For this reason, the Department budgets the expense and the revenue for these contractual programs in the General Fund.***

Historically, the 1995 desk audit performed by the staff of a prior Director of Field Audit found that there was a cumulative deficit in the Grant Fund for the period of that audit. The Department was instructed that under no circumstances was it to generate another deficit in the Grant Fund. It was at that time that the Department began posting all State Aid revenues received from the NYS Office of Alcoholism and Substance Abuse Services initially to the Grant Fund, with subsequent transfers of State Aid to the General Fund. Additionally, the Department began consistently journaling the expense for less than 100% grant funded personnel back to the General Fund. The Department took a

## Departments Response and Auditor's Follow-Up

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very conservative position with regard to the transfer of revenues to the General Fund, pending completion of reconciliations of the Grant Fund.

Departments Response and Auditor’s Follow-Up

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**Audit Recommendations and Summary:**

The Department will complete each of the recommendations made in the Draft Audit report with the following estimated timetable for completion which includes consideration of the Department’s planned relocation to 60 Charles Lindbergh Blvd. The Nassau County Office of Management and Budget is developing overall Policies and Procedures governing the Grant Fund operation. Please note that this Department’s responses to audit recommendations can be finalized only upon completion of established Policies and Procedures governing all County departments’ fiscal policies.

| <u>Audit Recommendation</u>   | <u>Estimated Date of Completion</u><br><small>(in accordance with formal Policies &amp; Procedures)</small> |
|---|---|
| a. Reconcile each of the grants and review estimates of surpluses and deficits for 1996 – 2001  | July 1, 2005  |
| b. Perform reconciliation of the 2002 and 2003 grant funds to determine existence of surplus or deficit                                   | July 1, 2005  |
| c. Ensure that there are no deficits related to the 2002-2003 grant years before recognizing 1996-2001                                    | July 1, 2005  |
| d. Ensure that revenues and expenses within a grant year agree on an individual index code basis and in the aggregate                     | July 1, 2005  |
| e. Accurately identifying contract agencies for which expenditures are fully grant-funded and paying those agencies out of the grant fund | Completed   |
| f. Initially record expenditures that are not fully grant funded in the general fund and then transfer the expense to the grant fund      | Policy under consideration  |

**Auditor’s Follow Up:**

*We concur with the correction actions being taken by the department.*

Departments Response and Auditor’s Follow-Up

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**Audit Finding (2) Written Procedures and Reconciliation of Grant Activity**

**Department Response:**

The Department has established several new interim fiscal internal controls and management reports over the past fifteen months. The Office of Management and Budget will establish a work group to develop Policies and Procedures for the Grant Fund, including specific job descriptions.

**Audit Recommendations and Summary:**

| <u>Audit Recommendation</u>  | <u>Estimated Date of Completion</u><br><small>(in accordance with formal Policies &amp; Procedures)</small> |
|--|---|
| a. Implementation of written Policies and Procedures   | Under review with HHS   |
| b. Develop financial and management reports to verify that expenditures posted to the grant fund are fully grant-funded, and that the final approved state budget has not changed this status; any grant expenditures not fully funded have been initially recorded in the general fund and then identified and transferred back to the grant fund; and grant revenues are posted to the grant fund to cover quarterly grant expenses. | July 1, 2005  |

**Auditor’s Follow Up:**

*We concur with the corrective actions being taken by the Department. We reiterate that the written Polices and Procedures should incorporate the requirements of County Comptroller’s Directive 2: “Internal Financial Controls”.*

**Audit Finding (3) Reconciliation of F/Y 2001 State Aid:**

**Department Response:**

Currently, to ensure appropriate checks and balances, the Department splits the responsibility of preparing the billings to the NYS OASAS from the responsibility of recording the receipt of advances, and recognizing unearned revenue in FAMIS. The Department will begin reconciling accounts immediately, with an anticipated completion date of July 1, 2005. Prior to 1997, the Department reconciled its vendor

## Departments Response and Auditor's Follow-Up

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reimbursements in FAMIS/NUMIS with vendor CQR's, and with the final State Aid approval schedule for that fiscal year. This reconciliation process has been reinstated.

### **Audit Recommendations and Summary:**

| <u>Audit Recommendation</u>  | <u>Estimated Date of Completion</u><br><small>(in accordance with formal Policies &amp; Procedures)</small> |
|--|---|
| a. Establish procedures to ensure that the final state aid settlements reconcile with the OASAS final approval letter worksheet. | March 15, 2005  |
| b. Remind the vendors of the proper procedures to follow concerning the submission of CFR's                                      | March 15, 2005  |

The Department has already begun to establish procedures to ensure better integration of the two tasks described above to ensure the collection of all available State Aid.

Although the Department's transmittal letter that accompanies the CFR forms and instructions always clearly states that CFR's are to be submitted to the Department and not to Albany, some agencies miss the instruction in the letter. The Department utilizes a log to record submissions of these documents to the Department; however, if the agency submits their CFR to both the Department and Albany, and the CFR to the Department is reconciled and corrected, the error can still occur in Albany. The Department will work with the NYS OASAS Long Island Field Office, its liaison to Albany, to address this particular problem.

The Department would like to acknowledge its appreciation to the Comptroller's Office for its assistance in securing the reimbursement of \$392,000 in State Aid.

### **Auditor's Follow Up:**

*We concur with the corrective actions being taken by the department.*

### **Audit Finding (4) Allocation of Personnel Expenses:**

#### **Department Response:**

The Department is in agreement that the budgeting and accounting for the Grant Fund personnel was not consistent with their actual reimbursement percentage and, as discussed in the response to Audit Finding (1), this inconsistency continued with the closing of its own treatment programs. This was resolved when the current administration recognized the problem and advocated for the correction of this situation. With regard to the specific issue of 2000, Grant Fund personnel expenses were journaled

## Departments Response and Auditor's Follow-Up

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back to the General Fund to the extent that there were funds available in the General Fund to absorb the expense, hence the underreporting.

### **Audit Recommendations and Summary:**

The Department concurs with the recommendations regarding proper assignment of personnel to the Grant Fund. Currently, the Department applies revenue to the General Fund to offset the reimbursable percentage of General Fund employees rather than journalizing the expense to the Grant Fund. As the development of new Policies and Procedures progresses, the Department will implement those Policies and Procedures.

### **Auditor's Follow Up:**

*We concur with the corrective actions being taken by the department.*

### **Audit Finding (5) Salaries not Charged to the Proper Year:**

#### **Department Response:**

The Department, upon installation of NIFS, agreed that it would maintain the same Grant Fund control centers from year to year, and only change the grant detail each year to designate the actual fiscal year. At the end of each fiscal year, the Department would contact the Comptroller's Office and notify them that it was about to shift personnel from one fiscal year to the next.

Each year the Department followed the instructions given on how to accomplish this; however, the actual payroll expense continued to be charged to the incorrect fiscal year. During the period covered by this audit, this issue had not yet been resolved. Currently, an additional screen has been identified that must be changed each year in order to ensure the posting of salary expense to the proper fiscal year.

### **Audit Recommendations and Summary:**

The posting problem between fiscal years has been resolved. The Department will transfer the 2003 salary expense recorded to the 2002 grant year back to the 2003 grant year. Finally, the Department will review the payments of termination pay being charged to prior years to ensure that they are included in the billings.

### **Auditor's Follow Up:**

*We concur with the corrective action being taken by the department.*

Departments Response and Auditor’s Follow-Up

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**Audit Finding (6) Byrne Grant – Reporting and Recording:**

**Department Response:**

The expenses associated with the Byrne Grant were allocated to several vendor contracts. The file containing the billings for the grant clearly identified the components of the budget and the documentation related to these billings. Since the grant funds flowed from the state, the revenue was reported as State Aid.

**Audit Recommendations and Summary:**

| <u>Audit Recommendation</u>  | <u>Estimated Date of Completion</u><br><small>(in accordance with formal Policies &amp; Procedures)</small> |
|--|---|
| a. Ensure that all federal grant cash receipts are properly reported and recorded  | Completed   |
| b. Monitor and maintain contemporaneous records and analysis of the grant activity to ensure grant revenues and expenditures match for each year | Under review with HHS   |

Each year, when asked to complete Federal Aid Questionnaires for the Comptroller’s Office, the Department will carefully review its responses to ensure that all Federal money is identified. The Department agrees with the recommendations.

**Auditor’s Follow Up:**

*We concur with the corrective actions being taken by the department. The funding obtained under the Byrne Grant was from the federal government even though it flowed through the state. As such it should have been reported as federal aid. The department should verify the source of the funding, state, federal or other, to ensure that it is properly classified in the single audit report.*

## Departments Response and Auditor's Follow-Up

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### **Audit Finding (7) Open Encumbrances:**

#### **Department Response:**

The Department does not disencumber contracts until it is absolutely sure that there is no additional anticipated activity. (Please note that the Department recently had to re-encumber funds for Mercy Medical Center and North Shore Child and Family Guidance Center after disencumbering too quickly.) However, the Department has not disencumbered inactive grant funds back to 1996, and will do so immediately. The Department looks forward to continued collaboration with the Comptroller's Office regarding access in NIFS to earlier year encumbrances (pre NIFS) in order to release funds and close these contracts.

#### **Audit Recommendation and Summary:**

The Department will develop a semiannual open encumbrances report based on report inquiries to NIFS. Accordingly, the Department will move to disencumber unnecessary contract balances in a timely manner

#### **Auditor's Follow Up:**

*We concur with the corrective action being taken by the department and note that the department should place these procedures in writing.*

### **Audit Finding (8) Timely Billings by Vendors:**

#### **Department Response:**

The Department has developed a Vendor Claims Variance Report for the purpose of providing management with a means of identifying vendors who are slow in submitting vouchers for reimbursement. The Department has developed a letter to be sent to such agencies to remind them of their tardiness. In Department meetings with agencies, they are reminded of the need to bill against their contract in a timely manner. Additionally, Department community liaison staff regularly addresses this issue with their assigned agencies.

In 2005, with the Comptroller's approval, the Department instituted a "random audit" claims process, which will expedite the submission of claims to the Department.

#### **Audit Recommendations and Summary:**

Although the vendor contracts include a requirement that claims be submitted no later than three months following the County's receipt of the services that are a subject of the claim, the NYS OASAS's final requirement for the submission of the final expenses and

## Departments Response and Auditor's Follow-Up

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revenues for the fiscal year (CFR) is due on May 1. Vendors submit this document to the Department for review and reconciliation against NIFS and the contract spreadsheet. Discrepancies can result in additional funds becoming due to or due from the vendor. The Department will use every means available to insist upon and enforce vendor obligations.

**Auditor's Follow Up:**

*We concur with the corrective actions being taken by the department.*