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**DIVISION OF STATE
GOVERNMENT ACCOUNTABILITY**

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**DEPARTMENT OF
CORRECTIONAL SERVICES**

**ARTHUR KILL
CORRECTIONAL FACILITY**

LATE VENDOR PAYMENTS

Report 2007-S-141

AUDIT OBJECTIVE

Our objective was to determine the reasons for late vendor payments by the Arthur Kill Correctional Facility and to determine whether the late payments were avoidable.

AUDIT RESULTS - SUMMARY

If a State agency does not pay a vendor within a certain 30-day timeframe, the agency is required by law to pay the vendor interest on the late payment. From April 1, 2005 to October 16, 2007, Arthur Kill Correctional Facility (Arthur Kill) paid its vendors late and as a result, had to pay an additional \$58,553 in interest to the vendors. For example, in fiscal year 2005-06, 77 percent were paid late and in fiscal year 2006-07 vendors were paid late 34 percent of the time.

We reviewed a sample of Arthur Kill's late payments and identified a number of reasons for the delays in payment. Most significantly, Arthur Kill officials told us that staff turnover in their business office was a major factor causing payments to be made late. At times there were either not enough staff to handle administrative functions and make payments timely, or inexperienced personnel (new or borrowed from other units) were working on the payment function. We recommend Arthur Kill officials develop an action plan to improve the timeliness of payments, and reallocate staff as needed to ensure that payments are made on time. If staffing problems persist, Arthur Kill officials should consult with DOCS central office.

Our report contains eight recommendations for improving the timeliness of vendor payments. DOCS officials agreed with our recommendations and indicate they will be implemented.

This report, dated April 23, 2009, is available on our website at: <http://www.osc.state.ny.us>. Add or update your mailing list address by contacting us at: (518) 474-3271 or Office of the State Comptroller
Division of State Government Accountability
110 State Street, 11th Floor
Albany, NY 12236

BACKGROUND

The Department of Correctional Services (DOCS) is responsible for the confinement and habilitation of sentenced inmates held at 69 correctional facilities and the 902-bed Willard Drug Treatment Campus.

Arthur Kill, which is located in Staten Island, in Richmond County, is a medium security correctional facility for males. Arthur Kill had a total population of 968 inmates and its non-personal services budget was \$9.27 million.

Article XI-A of the New York State Finance Law states that those entities doing business with the State expect and deserve to be paid in a prompt and timely manner. The law sets out the expectation that State agencies pay vendors within 30 calendar days (excluding legal holidays) after the receipt of a proper invoice at the agency's designated payment office or the date the goods, property, or services are actually received, whichever is later. This date is referred to as the "Merchandise Invoice Received Date" (MIR date). If a payment is not made within this 30-day timeframe, the agency is required by the law to pay interest to the vendor if the amount of interest would equal \$10 or more.

For the 2005-06 and 2006-07 fiscal years, DOCS paid \$241,033 and \$111,420, respectively, in interest on late payments to vendors. Among DOCS' correctional facilities, Arthur Kill had the highest interest payments in 2005-06 (\$37,777) and the

second-highest in 2006-07 (\$13,368). In 2005-06, its vendor payments were late 77 percent of the time, and in 2006-07, the payments were late 34 percent of the time. Arthur Kill's Business Office is responsible for processing its vendor payments. DOCS facilities use the agency's financial management system (known as KFMS) to prepare vouchers for payment. Arthur Kill's vouchers for individual payments under \$15,000 are electronically transmitted by KFMS to the Office of the State Comptroller for payment. For larger payments, the hard copy of the voucher must be submitted for processing.

AUDIT FINDINGS AND RECOMMENDATIONS

Reasons for Late Payments

For fiscal years 2005-06, 2006-07, and 2007-08 (through October 16, 2007), Arthur Kill often failed to process its vendor payments within the required timeframe. As a result, during this period, it had to pay an additional \$58,553 in interest to vendors. Such late payments affect Arthur Kill's business relationship with its vendors, and the interest payments divert funds that were intended to be available for the purchase of goods and services.

Arthur Kill made a total of 2,384 late payments to vendors. These payments totaled \$7.49 million. We selected for review a judgmental sample of 678 vouchers relating to \$3.96 million of these payments.

We then asked Arthur Kill officials why the 678 vouchers were paid late. According to the officials, the most common reasons for the late payments were as follows:

- staffing issues,

- available funds were lacking,
- paperwork at the facility was delayed or missing, and
- when there were competing priorities to send payments to vendors, payments to some vendors were delayed.

The officials identified several other less common reasons, as well. However, we focused our review on the four most common reasons. As part of this review, we examined documentation supporting the sampled vouchers. (The officials provided us with 661 of the 678 vouchers in our sample, saying they could not find the remaining 17 vouchers, totaling \$16,747.)

Staffing Issues

According to Arthur Kill officials, 452 of the vouchers (totaling \$3,121,103) were paid late because there was not enough staff, or the staff was new and inexperienced in Arthur Kill's Business Office to process the vouchers within the required 30-day timeframe. For 273 of the 452 vouchers, the lack of staff was the only reason for the delay; for the other 179 vouchers, the staffing was one of two or more reasons for the delay.

Arthur Kill officials noted that many staff members were either new or taken from other departments, such as the commissary or the storehouse and were still in a period of training. One of the reasons why several vouchers were late was due to the wrong MIR date recorded on the voucher by inexperienced staff when the voucher was actually paid on time. This occurred 29 times (totaling \$74,719) during the 2005-06 and 2006-07 fiscal years. When the other departments need their staff back, the

vouchering and purchasing department was left even more understaffed.

We acknowledge these difficulties and note that the current fiscal climate may not allow them to be resolved in a timely manner. Therefore, Arthur Kill officials need to focus on improved controls and procedures to reduce late payments. We note that Arthur Kill officials have not developed an action plan for improved controls and procedures to reduce their delays in paying vendors, and as a result, the delays have become chronic. We recommend Arthur Kill formally assess its vendor payment process, identify and document the reasons for processing delays, and develop specific action steps for controls and procedures to remedy the delays. We also recommend that Arthur Kill reallocate staff as necessary and practical to ensure that vendor payments are made on time. If the staffing problem persists, consult with DOCS central office.

Lack of Available Funds

According to Arthur Kill officials, 268 of the vouchers (totaling \$1,560,632) were paid late because funds were not available to pay the vendors on time. For 152 of the 268 vouchers, the lack of funds was the only reason for the delay; for the other 116 vouchers, the lack of funds was one of two or more reasons for the delay.

For example, facility officials indicated that the commissary operates with a revolving account. The facility orders items to maintain inventory stock levels, with payments being made from the revolving account. As items are sold, the proceeds are deposited in the revolving account, allowing the facility to order additional items. Facility personnel indicated they have ordered more inventory than could be supported by the revolving account.

At the closing conference, DOCS provided a letter from its Chief Financial Officer regarding the commissary revolving fund. The letter indicates that there was a shortage in Arthur Kill's commissary account, and attributed the problem to administrative issues, such as failure to increase commissary prices to cover costs. DOCS is reviewing the commissary account further to determine if state funds will be needed to replenish the revolving fund.

We met with DOCS officials in Albany regarding other instances where lack of funding was the reason given for payment delays. They could not agree with the assertion by Arthur Kill. Instead, they indicated that facility clerical errors had resulted in holds on funds not being released in a timely manner, so while it did not appear that funds were available, they actually were.

We recommend that the Arthur Kill Business Office contact DOCS' central office when KFMS indicates funds are not available to make payments and maintain a record of each event. This information should be used to determine whether facility personnel made an error or central office did not release the funds to make the payments.

Delayed or Missing Paperwork

According to Arthur Kill officials, 92 of the vouchers (totaling \$552,798) were paid late because paperwork at the facility was either delayed or missing. For 28 of the 92 vouchers, the delayed or missing paperwork was the only reason for the delay; for the other 64 vouchers, the delayed or missing paperwork was one of two or more reasons for the delay.

For example, our sample included 19 vouchers for pharmaceutical items totaling \$339,593. Arthur Kill officials told us that

these vouchers were paid late due to waiting for the necessary paperwork to be approved and returned from the staff in the medical unit. Some of these delays were due to staff shortages and a high turnover rate in the medical unit which made getting proof of delivery difficult. In three instances the vouchers were paid without approval of the medical unit to avoid further delay.

Arthur Kill officials also told us that there were problems with the nursing staff following proper procedure. The nurses have placed orders directly with the pharmacy without a purchase request. The lack of authorization has caused delays. The nursing staff is not authorized to directly place these orders. We found four such vouchers over the 2005-06 and 2006-07 fiscal years totaling \$1,355.

We recommend officials establish expected processing times for each step of the vendor payment process, monitor the process to determine whether the expected times are being met, and take corrective action when the times are not being met. In addition, the nursing staff should be notified to submit purchase requests to the Business Office, as required, and not purchase directly with the pharmacy. At the closing conference, Arthur Kill officials indicated that they now pursue delayed paperwork, rather than waiting for it.

Prioritization of Vendor Payments

According to Arthur Kill officials, 82 of the vouchers (totaling \$873,778) were paid late because, when given competing priorities, payments to certain vendors have lower priority. These vendors include those who are not entitled to interest (mainly government-related entities) as well as large vendors that could sustain waiting for payment (for example, not a local, small business). Lastly, vouchers that are of small amounts may be

held to be sent out in groups. For 3 of the 82 vouchers, the lower priority for payment was the only reason for the delay; for the other 79 vouchers, the lower priority for payment was one of two or more reasons for the delay.

We recommend that Arthur Kill officials develop an action plan with a goal of paying all vendors on time.

Recommendations

1. Ensure that vendor payments are made timely in accordance with the New York State Prompt Payment Legislation.
2. Formally assess the facility's vendor payment process, identify and document the reasons for processing delays, and develop specific remedies (in the form of an action plan) for the delays.

(DOCS officials replied to our draft audit report that they will maintain documents regarding the delays.)

Auditor's Comments: DOCS response does not indicate they will develop an action plan to correct the conditions causing the delays. The action plan is a critical part of the recommendation and we urge DOCS to do so.

3. Reallocate staff as necessary to ensure that vendor payments are made on time. If the staffing problem persists, consult with DOCS central office.
4. Contact DOCS' central office when KFMS indicates funds are not available to make payments and maintain a record of each event. This information should be used to

- determine whether facility personnel made an error or central office did not release the funds to make the payments.
5. Ensure the commissary does not order more than can be supported by sales revenues.
 6. Complete the review of the commissary account, and take appropriate action to resolve the cause(s) of the account shortage. Report the results of the review to the Office of the State Comptroller.
 7. Establish expected processing times for each step of the vendor payment process, monitor the process to determine whether the expected times are being met, and take corrective action.
 8. Periodically remind the nursing staff to submit purchase requests to the Business Office, as required, and not purchase directly with the pharmacy.

AUDIT SCOPE AND METHODOLOGY

We audited Arthur Kill's vendor payment process for the period April 1, 2005 through October 16, 2007. To accomplish our objective, we interviewed officials at Arthur Kill and DOCS central office and reviewed documentation supporting payments made to vendors. We selected a judgmental sample of payments for review from vendors that had received ten or more late payments in the 2005-06 and 2006-07 fiscal years, and through October 16, 2007 in the 2007-08 fiscal year. In total, there were 285 such vendors in the 2005-06 year, 215 such vendors in the 2006-07 year, and 105 such vendors in the first part of the 2007-08 year.

We conducted our performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

In addition to being the State Auditor, the Comptroller performs certain other constitutionally and statutorily mandated duties as the chief fiscal officer of New York State. These include operating the State's accounting system; preparing the State's financial statements; and approving State contracts, refunds, and other payments. In addition, the Comptroller appoints members to certain boards, commissions and public authorities, some of whom have minority voting rights. These duties may be considered management functions for purposes of evaluating organizational independence under generally accepted government auditing standards. In our opinion, these functions do not affect our ability to conduct independent audits of program performance.

AUTHORITY

The audit was performed pursuant to the State Comptroller's authority as set forth in Article V, Section 1 of the State Constitution and Article II, Section 8 of the State Finance Law.

REPORTING REQUIREMENTS

A draft copy of this report was provided to DOCS officials for their review and comment. Their comments were considered in preparing this final report, and are included as Appendix A.

Within 90 days of the final release of this report, as required by Section 170 of the Executive Law, the Commissioner of the Department of Correctional Services shall report to the Governor, the State Comptroller, and the leaders of the Legislature and fiscal committees, advising what steps were taken to implement the recommendations contained herein, and where recommendations were not implemented, the reasons why.

CONTRIBUTORS TO THE REPORT

Major contributors to this report include Carmen Maldonado, Robert Mehrhoff, Erica Zawrotniak, Joseph Smith, Richard Moriarty and Dana Bitterman.

APPENDIX A – AUDITEE RESPONSE



BRIAN FISCHER
COMMISSIONER

STATE OF NEW YORK
DEPARTMENT OF CORRECTIONAL SERVICES
THE HARRIMAN STATE CAMPUS – BUILDING 2
1220 WASHINGTON AVENUE
ALBANY, N.Y. 12226-2050

February 5, 2009

Ms. Carmen Maldonado
Audit Director
Office of the State Comptroller
Division of State Government Accountability
123 William Street, 21st Floor
New York, NY 10028

RE: Draft Audit Report 2007-S-141:
Arthur Kill Correctional Facility -
Late Vendor Payments.

Dear Ms. Maldonado:

In accordance with Section 170 of the Executive Law and in response to your correspondence of January 12, 2009, attached is the Department's reply to the Draft Audit Report (2007-S-141) Department of Correctional Services' Arthur Kill Correctional Facility *Late Vendor Payments*.

DOCS would like to acknowledge the time and effort of all employees that were involved with this audit and their desire to improve the Department's operation.

Sincerely,

A handwritten signature in black ink, appearing to read "Brian Fischer".

Brian Fischer
Commissioner

-Attachment-



STATE OF NEW YORK
DEPARTMENT OF CORRECTIONAL SERVICES
ARTHUR KILL CORRECTIONAL FACILITY
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BRIAN S. FISCHER
COMMISSIONER

DENNIS J. BRESLIN
SUPERINTENDENT

January 28, 2009

Carmen Maldonado
Audit Director
Office of the State Comptroller
Division of State Government Accountability
123 William Street - 21st Floor
New York, NY 10038

Re: Audit Report 2007-S-141:
Arthur Kill Correctional Facility
Late Vendor Payments

Dear Ms. Maldonado:

We have reviewed the Audit of Arthur Kill Correctional Facility Late Vendor Payments, Report 2007-S-141, and offer the following comments on the recommendations made during the audit.

Recommendation #1: Ensure that vendor payments are made timely in accordance with the New York State Prompt Payment Legislation.

Response: We agree with this recommendation and have provided training for staff in this regard.

Recommendation #2: Formally assess the facility's vendor payment process, identify and document the reasons for processing delays and develop specific remedies (in the form of an action plan) for the delays.

Response: We agree with this recommendation. Better documentation for delays will be maintained by a log in the Business Office.

Recommendation #3: Re-allocate staff as necessary to ensure that vendor payments are made on time. If the staffing problem persists, consult with DOCS Central Office.

Response: We agree with this recommendation and will re-allocate staff as necessary.

Recommendation #4: Contact DOCS Central Office when KFMS indicates funds are not available to make payments and maintain a record of each event. This information should be used to determine whether facility personnel made an error or Central Office did not release the funds to make the payment.

Response: We agree with the recommendation. When staff believes that funds are unavailable, discussions will take place with the Central Office Budget Analyst.

Recommendation #5: Ensure the Commissary does not order more than can be supported by sales revenues.

Response: We agree with this recommendation. Orders will only be made when revenues are available.

Recommendation #6: Complete the review of the Commissary account and take appropriate action to resolve the cause(s) of the account shortage. Report the results of the review to the Office of the State Comptroller.

Response: We agree and will comply with the recommendation.

Recommendation #7: Establish expected processing times for each step of the vendor payment process, monitor the process to determine whether the expected times are being met, and take corrective action.

Response: We agree with this recommendation. A log book has been established to track the process from the ordering through receiving of goods to payment.

Recommendation #8: Periodically remind the Nursing staff to submit purchase requests to the Business Offices, as required, and not to purchase directly with the Pharmacy.

Response: We agree. The Nurse Administrator will meet regularly with the Steward to review our practices with Agency Nurses.

Sincerely,



Dennis Breslin,
Superintendent

DJB/hs

cc: File