
Alan G. Hevesi
COMPTROLLER



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OFFICE OF THE
NEW YORK STATE COMPTROLLER

DIVISION OF STATE SERVICES

ROSWELL PARK CANCER
INSTITUTE CORPORATION

INTERNAL CONTROLS
OVER PROCUREMENT AND
REVENUES

Report 2005-S-15

AUDIT OBJECTIVE

Our objective was to determine whether the Roswell Park Cancer Institute Corporation (Corporation) instituted appropriate and sufficient internal controls over procurement and revenue operations that would safeguard assets adequately and maximize revenues.

AUDIT RESULTS - SUMMARY

We found the Corporation's procurement and revenue practices do provide reasonable assurance that established goals and objectives will be achieved. We tested the following areas: organizational culture; procurement, including contracts, purchase orders, and the purchasing card program; and

revenues, including patient accounts revenues and collections, and investments.

In addition to the matters discussed in this report, we have reported separately on increasing the use of the purchasing card program for small dollar transactions.

This report, dated May 2, 2006, 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 Services
State Audit Bureau
110 State Street, 11th Floor
Albany, NY 12236

BACKGROUND

The Corporation is a public benefit corporation formed by the State of New York (State). Prior to 1999, the State's Department of Health was responsible for overseeing its activities. The Corporation includes a public hospital and medical research center that is 1 of 39 National Cancer Institute-designated comprehensive cancer centers in the United States. Providing medical research, education, and health care services for the benefit of State residents, the Corporation's purpose is to investigate the cause, mortality, treatment, prevention, and cure for cancer and related diseases. Its vision is to continue building its reputation as a leading comprehensive cancer center through the knowledge and talents of its 2,100 faculty and staff.

AUDIT FINDINGS AND RECOMMENDATION

Organizational Culture

The Corporation's Board of Directors (Board) is made up of 15 members and meets quarterly. The Board appears to be fulfilling its fiduciary requirements, including the adequate management of the Corporation's procurement and revenue operations. We reviewed the agendas and minutes for all Board meetings held during our audit period and found adequate documentation of each significant event, such as approving any contract over \$1 million or policy changes. We noted that Board members receive and review a number of detailed financial and operational reports at each meeting, including reports from the Finance, Investment, Audit, Operations, and Quality Assurance committees. Further, we found the members are actively involved in overseeing Corporation operations - for example,

reviewing proposed procurement contracts and addressing changes in policies and procedures.

When we reviewed the Internal Control Certifications prepared by an independent certified public accounting firm (CPA) for fiscal years 2003 and 2004, we found the CPA described the Corporation's corporate compliance program as mature and well-functioning. Corporate management has established a Board Conflict of Interest Policy, Corporate Conflict of Interest Policy, Corporate Compliance Policy, and Corporate Code of Conduct. In addition, a second CPA firm has recently been engaged to perform the new internal audit function and an Internal Audit Coordinator has been hired to serve as a liaison.

Procurement

The procurement process applies to all purchases made against Corporation funds. Purchases are made via contracts, purchase orders, and the procurement card program. Corporation management has established and followed formal policy and procedures for contracts, purchase orders, and procurement cards; and spending limitations and approval requirements are clearly defined. We interviewed Materials Management staff who are responsible for all procurements and Finance Office staff who are responsible for the procurement card program, and found they appear to be knowledgeable about their duties and the systems used in the procurement process. There are clear lines of reporting and communication within the departments and within the Corporation as a whole.

Contracts

The Corporation's Procurement Contract Guidelines (Procurement Guidelines) have

been adopted according to the provisions of the Public Authorities Law and are subject to annual review and approval by the Board of Directors. The Procurement Guidelines apply to any contract for goods or services totaling \$25,000 or more. All contracts over \$250,000 must be approved by the Finance Committee; those valued at more than \$1,000,000 must be approved by the Board.

The Corporation's purchasing process is almost entirely electronic. Materials Management uses a purchasing management system with a number of built-in control features, such as approval controls and an item master for frequently-ordered items. Materials Management staff informed us that recent upgrades to the system include a contract module that they are currently using to track contracts.

The Board hired a consulting firm to perform an external audit of the existing procurement process for the Facilities Department, with audit objectives focusing on the procurement of capital improvements and renovations. The consulting firm, which specializes in government projects, completed the audit in September 2004 and made 35 recommendations. In response to the audit report, Corporate management prepared a work plan for implementing the recommendations.

During our audit, we reviewed a total of 25 contracts. To determine whether new contract controls were working as intended, we selected 11 contracts that had been initiated after January 2005 and examined them in detail. We found the new controls and implementation of the recommendations have improved the procurement contract process. We also noted the Materials Management group was maintaining sufficient documentary evidence to support contract expenditures.

The Procurement Guidelines state that, except in certain specified cases, purchases valued at \$25,000 or more must be advertised in the *New York State Contract Reporter*. Seven of the contracts in our sample met this criterion. We found the contracts had been advertised, bid, and awarded as required by the Procurement Guidelines.

Purchase Orders

The Corporation's purchase order policy applies to all purchases made against Corporation funds, and any purchase that is considered sole-source must include a justification.

Using computer-assisted audit techniques, we reviewed all of the purchase orders issued by the Corporation from April 2003 through February 2005. This data analysis did not indicate any anomalies. Based on our review, we judgmentally selected a total of 35 purchase orders for further examination. We found that each of the purchase orders we reviewed contained complete vendor and delivery information and appropriate approvals based on dollar thresholds. We also compared the purchase order amount with the invoiced amount paid and found no discrepancies.

Procurement Card

According to the Corporation's purchasing card program policies and procedures, "The purpose of the purchasing card program is to streamline and simplify the requisitioning, purchasing, and payment process for small dollar transactions. The program is designed to shorten the approval process and reduce the paperwork of procurement procedures such as purchase orders, petty cash, check requests, and expense reimbursements."

The Corporation piloted the purchasing card program in May 2001 and has generally been successful in monitoring the purchasing activities of the cardholders. Currently, 23 cardholders use the card for travel and day-to-day purchases. We encourage the Corporation's officials to expand use of this program to reduce the processing costs of small dollar transactions.

Revenues

Revenue controls cover both investments and patient accounts revenues and collections. During the 2004 fiscal year, the Corporation recorded total operating revenues of \$252 million - \$164 million in net patient services revenues, \$83 million in State contributions, \$1.8 million from grants and contracts, and \$3.2 million in other operating revenue. In addition, the Corporation reported non-operating income of \$5 million, including \$2.5 million of interest and other income from investments.

Patient Account Revenues and Collections

The Corporation's patient billing policies and procedures state: "It is the practice of Patient Accounts to release billing to insurance carriers in a timely manner. It is also the practice of Patient Accounts to perform follow-up functions on these billed accounts in the time-frame established under this procedure."

We observed there are clear lines of reporting and communication within the patient accounts department and among the medical staff. Departmental meetings are held on a regular basis, and management maintains an open door policy. Patient accounts management participates in intra-departmental work groups to help resolve patient billing issues, and reviews a number

of daily, weekly and monthly administrative reports.

Patient accounts management has hired outside consulting firms over the past five years to examine the Corporation's billing practices and compare its own patient rates with those of national peers and other hospitals in western New York. Corrective action based on these reviews has been taken to prevent under-billing of patient accounts.

The majority of patient billings are prepared and submitted electronically to Medicare, Medicaid, and insurance carriers. Billing coders' work is reviewed by department heads as well as by the Corporation's Risk Manager for Quality Assurance. Based on established time frames, the Patient Accounts department systematically refers uncollected accounts valued at more than \$500 to the New York State Attorney General's office maintained on site.

Our review of inpatient and outpatient accounts found they had been billed accurately and timely, recorded properly, and tracked correctly. Our review of patient accounts receivable found that all accounts had been followed up correctly, including those that were referred to the Attorney General for collection.

Investments

The Investment Guidelines for Public Authorities (Investment Guidelines) provided by the Office of the State Comptroller require that the investment policies of public authorities be written. They are to cover diversification of investments; authorized investments; delegation of authority over investments, internal controls, authorized banking institutions, collateralization, and purchase repurchase procedures; and performance, audit, and financial reporting.

We found the Corporation followed these Investment Guidelines in developing its policies and procedures governing investments and that it observes the policies and follows the procedures.

According to the Corporation's Investment Policy, the Board assumes ultimate responsibility for administering investment policies, and appoints an Investment Officer to research investments and reconcile monthly activity. When we reviewed Board minutes, we verified the Finance Committee makes quarterly reports to the Board on its investment activities. We also confirmed and reconciled the Corporation's 25 investment account balances at seven financial institutions to the general ledger.

Recommendation

Continue to provide sufficient internal controls over procurement and revenue operations.

AUDIT SCOPE AND METHODOLOGY

We did our financial audit according to generally accepted government auditing standards. We audited the Corporation's internal controls over procurement and revenues for the period of April 1, 2003 through June 30, 2005. We reviewed the Corporation's By-Laws and minutes from Board meetings to determine the level of involvement in the procurement and revenue process. We reviewed financial statements and compliance reports for the fiscal years 2003 and 2004. To accomplish our objectives, we met with Corporate officials to confirm and enhance our understanding of procurement and investment requirements and

terms related to patient accounts. We used auditing software to analyze vendor transactions and anomalies in corporate expenditures and reviewed contracts, purchase orders, and procurement card purchases to determine whether appropriate documentation, authorization, and review were completed according to Corporate procedures. We also determined whether the purchases had been made in an economical and efficient manner. We reviewed patient accounts to determine whether bills had been processed timely and accurately and whether collection procedures were being followed.

In addition to being the State Auditor, the Comptroller performs certain other duties as the chief fiscal officer of New York State that have been mandated by statute and the State Constitution. The Division of State Services is responsible for several of these, including operation of the State's accounting system; preparation of the State's financial statements; and approval of State contracts, refunds, and other payments. In addition, the Comptroller appoints members - some of whom have minority voting rights - to certain boards, commissions, and public authorities. These duties may be considered management functions for purposes of evaluating organizational independence under generally accepted government auditing standards. In our opinion, they do not affect our ability to conduct independent audits of program performance.

AUTHORITY

The audit was performed according to the State Comptroller's authority under 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 Corporate officials for their review and comment. Their comments were considered in preparing this report, and are included as Appendix A. Corporate officials were pleased with the audit results and the assistance provided to them by the audit team.

Within 90 days after final release of this report, as required by Section 170 of the Executive Law, Chief Financial Officer of the Roswell Park Cancer Institute Corporation shall report to the Governor, the State Comptroller, and the leaders of the Legislature and fiscal committees, advising of

the steps that were taken to implement the recommendations it contained, and/or the reasons certain recommendations were not implemented.

CONTRIBUTORS TO THE REPORT

Major contributors to this report include William Challice, Sheila Emminger, Todd Seeberger, Mary Roylance, Erika Akers, Lynn Freeman, Jennifer Mitchell, and Marticia Madory.

APPENDIX A – AUDITEE RESPONSE



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The future is at Roswell.

February 17, 2006

Mr. William P. Challice
Audit Director
Office of the State Comptroller
Division State Services
State Audit Bureau
123 William Street – 21st Floor
New York, New York 10038

Dear Mr. Challice:

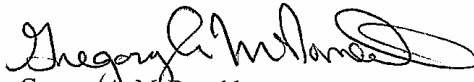
Roswell Park has received the Office of State Comptroller's draft audit report issued January 20, 2006, *Internal Controls Over Procurement and Revenues, Report 2005-S-15*, a copy of which is enclosed. Roswell Park is pleased with the summary audit results which indicate the following:

"We found the Corporation's procurement and revenue practices do provide reasonable assurance that established goals and objectives will be achieved. We tested the following areas: organizational culture; procurement, including contracts, purchase orders, and the purchasing card program; and revenues, including patient accounts revenues and collections, and investments."

The report has been provided to the Roswell Park Cancer Institute Inc. Board of Directors and reviewed in detail with its Finance Committee.

We appreciate the assistance and flexibility provided by the audit team during the audit.

Sincerely,


Gregory A. McDonald
VP of Finance and CFO

A National Cancer Institute-designated Comprehensive Cancer Center • A National Comprehensive Cancer Network Member