
**Thomas P. DiNapoli
COMPTROLLER**



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**OFFICE OF THE
NEW YORK STATE COMPTROLLER**

**DIVISION OF STATE
GOVERNMENT ACCOUNTABILITY**

DEPARTMENT OF HEALTH

**MONTROSE VETERANS
HOME - VENDOR INTEREST
PAYMENTS**

Report 2007-S-69

AUDIT OBJECTIVE

The objective of our audit was to determine if interest payments for Montrose Veterans Home to vendors were avoidable.

AUDIT RESULTS - SUMMARY

The New York State Veterans' Home at Montrose (Home) is a health care facility for veterans and their dependents, owned and operated by the New York State Department of Health. All State agencies are required to follow specific guidelines relating to contracts and purchases. In addition, Article XI-A of the State Finance Law gives legal guidelines for interest payments on certain amounts owed by the State.

Between April 1, 2005, and March 31, 2007, the Home made 378 interest payments to 83 vendors totaling \$26,850. To determine if interest payments were avoidable, we judgmentally selected a sample of 6 vendors who received 114 interest payments totaling \$16,340. We found that interest payments to these vendors were avoidable. [Page 3]

Of the interest payments to the 6 vendors, we found that 53 interest payments totaling \$10,357 to 3 vendors could have been avoided had the Home processed the vendor invoices timely. The remaining 61 interest payments to 3 vendors, totaling \$5,983, could also have been avoided had the Home's contracting processes been working properly. [Page 3]

In the second year of our audit period, the Home did take steps to avoid interest payments, such as putting contracts in place and following proper voucher and contract procedures. As a result, interest payments declined 72 percent in the following year. [Page 3]

Our audit report contains one recommendation.

This report, dated February 8, 2008, 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 New York State Veterans' Home at Montrose (Home) is a health care facility for veterans and their dependents, owned and operated by the New York State Department of Health. The 252-bed long-term-care skilled nursing facility serves the lower Hudson Valley region and is located on the grounds of the United States Veterans Administration Medical Center in Montrose.

Article XI-A of the State Finance Law (Law), referred to as the Prompt Payment Law, gives legal guidelines for interest payments on certain amounts owed by the State. It states that if payment is not made within 30 days from when the agency receives goods and services or an invoice, whichever is later, interest will be due to vendors. The Law also allows State agencies to have more than 30 days to make a payment, such as when goods and/or services or invoices are defective, or invoices do not contain sufficient detail. For example, when an agency receives an invoice from a vendor, it has 15 days to notify the vendor of any deficiencies (i.e., the invoice is either inaccurate or incomplete, defects are found in goods or services received, etc.)

If this happens, the Office of the State Comptroller (OSC) has guidelines for agencies to follow and the date that payment

is due can be increased by the number of days it takes to correct the problem. It is the Home's responsibility to monitor invoices to be sure that they are processed by the due date and no interest is accrued.

AUDIT FINDINGS AND RECOMMENDATION

Interest Payments to Vendors

Between April 1, 2005, and March 31, 2007, the Home made 378 interest payments to 83 vendors totaling \$26,850. To determine if interest payments were avoidable, we judgmentally selected a sample of 114 interest payments totaling \$16,340 to 6 vendors. Our audit of the documentation associated with these payments, including the vendor contracts, showed that interest payments were avoidable.

We found that 3 vendors received 53 interest payments totaling \$10,357 because the Home did not process the vendor invoices timely. Home officials held 34 invoices for 2 vendors since they believed some of the charges were inaccurate. This caused interest payments of \$7,145 and \$1,566 to the vendors. The Home could have avoided these payments by contacting the vendors regarding the invoices and by following OSC guidelines relating to defective invoices. The other 19 invoices for the third vendor were processed between 48 days and 252 days late, resulting in \$1,646 in interest being paid. Home officials said that there were recurring problems with invoices from these three vendors, so they were routinely held for review.

The 3 remaining vendors received 61 interest payments totaling \$5,983 as a result of the Home not having the required contracts in place. Since OSC cannot pay contractors without a contract in place, interest accrued. Contracts for two vendors expired before they

were renewed. These vendors received interest payments totaling \$1,555 and \$2,889. The remaining vendor received \$1,539 in interest payments because there was no contract in place. The Home could have avoided these interest payments by processing contracts for these vendors.

If the Home had followed the Law relating to interest payments and contracts, these payments could have been avoided.

We note that, in the second year of our audit period, the Home did take steps to avoid interest payments, such as putting contracts in place and following proper procedures for working with problem vendors. As a result, the Home has already seen interest payments decline. Between April 2005 and April 2006, interest payments totaled \$21,021. Interest payments declined 72 percent to \$5,829 in the following year.

Recommendation

Follow appropriate contract and payment procedures.

AUDIT SCOPE AND METHODOLOGY

We conducted our audit in accordance with generally accepted government auditing standards. We audited selected procurement practices at the Home to determine whether interest payments relating to contracts were avoidable. Our audit period was from March 31, 2005, to March 31, 2007.

To accomplish our audit objective, we interviewed the Chief Fiscal Officer of the Home and examined its vendor contracts and purchasing policies. We also interviewed accountants and accounts payable employees and evaluated the Home's receiving and payment procedures. In addition, we examined the Prompt Payment legislation

pertaining to late vendor payments. We judgmentally selected interest payments to five vendors that received the largest total dollar amount of interest during our audit period. We also selected an additional vendor that received a large number and dollar amount of interest during the final six months of our audit period. We analyzed the monthly historical interest payment trends for the Home and for the six sampled vendors.

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

This 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

We provided a draft copy of this report to Home and Department of Health officials for their review and comment. Their comments were considered in preparing this report, and are included as Appendix A. Department of Health officials agreed with our recommendation and cited steps the Home has taken to implement it.

Within 90 days after final release of this report, as required by Section 170 of the Executive Law, the Commissioner of the Department of Health 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 recommendation contained herein, and where the recommendation was not implemented, the reasons therefor.

CONTRIBUTORS TO THE REPORT

Major contributors to this report include William Challice, Richard Sturm, Todd Seeberger, John Lang, Lauren Bizzarro, Mark Breunig, Matthew Luther, and Sue Gold.

APPENDIX A - AUDITEE RESPONSE



Coming Tower The Governor Nelson A. Rockefeller Empire State Plaza Albany, New York 12237

Richard F. Dalnes, M.D.
Commissioner

Wendy E. Saunders
Chief of Staff

January 17, 2008

William P. Challice
Office of the State Comptroller
Division of State Government Accountability
110 State Street, 11th Floor
Albany, New York 12236

Dear Mr. Challice:

Enclosed are the New York State Department of Health's comments on the Office of the State Comptroller's (OSC) draft audit report 2007-S-69 on "Montrose Veterans Home – Vendor Interest Payments."

Thank you for the opportunity to comment.

Sincerely,

Wendy E. Saunders
Chief of Staff

Enclosure

cc: Stephen Abbott
Val S. Gray
Randall Griffin
Sandra Pettinato
Robert W. Reed
James Wyzykowski

**Department of Health
Comments on the
Office of the State Comptroller's
Draft Audit Report 2007-S-69 on
"Montrose Veterans Home – Vendor Interest Payments"**

The following are the Department of Health's (Department) comments in response to the Office of the State Comptroller's (OSC) draft audit report 2007-S-69 on "Montrose Veterans Home – Vendor Interest Payments."

Recommendation #1:

Follow appropriate contract and payment procedures.

Response #1:

The Department agrees with this recommendation and has taken steps to ensure that the applicable contract and payment procedures are followed. Facility staff received consulting and training in contracts and procurements from the OSC. Facility management will continue to collaborate with the OSC to ensure that existing and newly hired staff are properly trained and thoroughly understand the procurement process. Additionally, there has been significant improvement in avoiding late payment interest as evidenced by the 72 percent drop in such payments cited by the report, with the following measures implemented to ensure further improvement.

- Identify any deficiencies in the goods or services received and/or the invoicing process relative to the procurement;
- Work with the vendor and the OSC to resolve these deficiencies and to promptly pay the invoice or the portion of the invoice not disputed for unresolved issues; and
- Continue to monitor contract expiration dates to ensure valid contracts are in place where required.