
**Thomas P. DiNapoli
COMPTROLLER**



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**OFFICE OF THE
NEW YORK STATE COMPTROLLER**

**DIVISION OF STATE
GOVERNMENT ACCOUNTABILITY**

**NEW YORK STATE
DEPARTMENT OF
CORRECTIONAL SERVICES**

**MID-ORANGE
CORRECTIONAL FACILITY**

**SELECTED LATE VENDOR
PAYMENTS**

Report 2008-S-71

AUDIT OBJECTIVE

Our objective was to determine why late payments were made to vendors and whether Mid-Orange Correctional Facility (Mid-Orange) has taken action to remedy these reasons.

AUDIT RESULTS - SUMMARY

For the three fiscal years 2005-06 through 2007-08, Mid-Orange incurred late payment interest costs of \$10,771 because it did not pay vendors on time as required under New York State's prompt payment legislation. We followed up on a sample of 416 of the late paid vouchers totaling about \$1.4 million that caused this interest cost and identified a number of underlying reasons causing the payment delay. The late payment of vouchers and the associated interest cost must be avoided to minimize adverse impacts on vendors and to reduce State costs.

The reasons that we identified for the late payment of vouchers at Mid-Orange include, lack of funds in certain Mid-Orange accounts, business office staff shortages, lack of timely allocations of funds from the Department of Correctional Services, clerical errors in processing payment records, delay in obtaining payment approvals and certain other factors.

We made ten recommendations for addressing the underlying reasons for delays in paying vouchers on time. DOCS officials agreed with our recommendations and indicated they have taken actions to implement them.

This report, dated November 10, 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 Department of Correctional Services (DOCS) is responsible for the confinement and habilitation of sentenced inmates held at 69 State correctional facilities and the 902-bed Willard Drug Treatment Campus.

The Mid-Orange Correctional Facility (Mid-Orange), located in Warwick, New York, is a medium security prison established in 1977. As of December 2007, it had a total population of 724 inmates. The facility employs 405 employees who work in various areas such as support services, supervision of inmates, program services, and health services.

Article XI-A of the New York State Finance Law indicates that 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 either 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).

When a payment is late, the law requires that State agencies make interest payments to vendors if the amount of interest would equal \$10 or more. Payments to the Federal

government, other State agencies, or public authorities and to local governments are not covered by the prompt payment legislation and are not interest-eligible. However, as a good business practice, amounts owed to these entities should be paid promptly as well.

DOCS facilities use the agency's financial management system (known as KFMS) to prepare vouchers for payment. Mid-Orange's vouchers for individual payments under \$15,000 are transmitted electronically by KFMS to the State Comptroller's Office for payment. Vouchers for larger payments must be presented physically to the State Comptroller's Office for processing. Payments are posted to the State Accounting System.

Mid-Orange's Office of Administrative Services handles a number of routine business functions for the facility, including purchasing and processing of payments to contractors and other vendors it does business with.

AUDIT FINDINGS AND RECOMMENDATIONS

Reasons for Late Payments

For fiscal years 2005-06 through 2007-08, Mid-Orange incurred late payment interest of \$10,771 because it did not pay vendors in a timely manner. We examined a sample of 416 vouchers totaling \$1.4 million that Mid-Orange paid late during these years. Mid-Orange officials provided us with all of the vouchers and explained its reason for late payment for all but 12 of them, totaling \$13,329. The major reasons for late payment were lack of money in the commissary fund, unavailable State funding allocations from DOCS, staffing shortages, clerical errors, and delays in obtaining documentation from the nursing unit.

The following sections describe the reasons why Mid-Orange was experiencing late payments leading to State interest costs. (Certain of the vouchers we reviewed had more than one reason resulting in late payments.) These interest payments must be minimized wherever possible to avoid adverse impacts on vendors and excessive costs to the State.

Commissary Account Shortage

We examined 194 late payment vouchers totaling \$304,635 related to 12 commissary vendors. These payments were late by an average of 23 days.

The late payment resulted because the Mid-Orange commissary account had a cash shortage during the 2005-06 and 2006-07 fiscal years. This led to Mid-Orange not having sufficient funds to pay vendors on time. Vendors complained and threatened not to deliver goods until Mid-Orange paid outstanding invoices.

Shortage of Staff To Process Vouchers

Mid-Orange officials described business office staff shortages during 2005-06 that required them to move staff around to handle administrative functions. For example, storehouse workers had to share time delivering, receiving, and processing invoices for payments. These conditions not only led to inexperienced persons processing vendor payments; they also resulted in a breakdown of intended internal controls. Mid-Orange officials told us that, in addition to staff turnover, it is difficult to hire replacements and they do not have budget authorization to hire as many people as they say are needed. The management team at Mid-Orange is relatively new, the Superintendent started in October 2007, the Steward in June 2007, and the Deputy for Administration in 2006. In

addition, the Head Accounts Clerk started in May 2007. They hope the new team will be able to improve the timeliness of payments and strengthen controls.

Lack of Available Funds

Late vendor payments were also attributed to the lack of timely funding allocation by the DOCS Central Office. In our sample, there were 313 vouchers totaling \$1,079,419 that were paid late for this reason. Mid-Orange officials explained that these vouchers were prepared and entered into KFMS for payment; however, payments were not made because DOCS had not yet allocated the appropriation to Mid-Orange. They added that the quarterly allocations are not usually done on time. Mid-Orange officials point out that they need to purchase items to maintain the safety and health of inmates and staff. DOCS Central Office did not agree that funds were not allocated to Mid-Orange in a timely manner. They advised that they have reports to monitor certain activities at each facility. Furthermore, they maintain that Mid-Orange should have notified Central Office if they could not pay their bills.

Missing/Delayed Paperwork

Our review found that payment on 17 of the sampled 416 vouchers totaling \$122,642 was late because of missing or delayed paperwork within the facility. For example, 15 vouchers valued at a total of \$121,749 were late in 2005-06 because Mid-Orange's nursing unit did not submit the documentation on time. The other two vouchers from two vendors, totaling \$893, were paid late because the commissary was slow in getting the invoice to the business office.

Clerical Errors

Clerical errors in the business office were the reason 70 vouchers, valued at \$139,078, were paid late. Mid-Orange officials explained that staffing shortages required them to rotate staff in and out of the business office. Due to inexperience, some of the staff recorded a wrong payment date and/or MIR date. There were also numerous other errors in entering information into KFMS.

For example, Mid-Orange had paid the wrong amount to one vendor. Later, when it paid the difference, it used the original MIR date, resulting in a late payment of nearly one year. In another example, Mid-Orange paid a voucher, but paid the wrong vendor. The replacement check to the correct vendor was paid significantly late.

Awaiting Approval

Two of the 416 sampled vouchers totaling \$12,862 were paid late because the proper internal approval was not done timely. The original vouchers were increased and, therefore, needed additional review and approval by the Steward and the Deputy Superintendent for Administration before the payments could be processed. The approvals were not done in a timely manner.

Vendor Notification

According to the Prompt Payment Legislation, agencies should process vendor payments within 22 days, or notify the vendor in writing within 15 days of any problem with the goods, services, or invoices received.

In our review of Mid-Orange's invoices, we found occasional problems with goods, services, or invoices. But Mid-Orange did not alert the vendors to the problems in writing within the requisite time frame. Instead, it is

Mid-Orange officials' practice to communicate with the vendor via telephone and faxes because they believe problems can be resolved more quickly that way. We believe Mid-Orange employees should properly protect their right to change the MIR by documenting, in writing, when goods or services are not satisfactory. While the use of a fax or telephone is quicker, these methods are not provided for in the procedures.

*Combining Multiple Invoices on One
Voucher*

It is Mid-Orange's practice to combine invoices from vendors into a single voucher for payment purposes. While this is a prudent practice and reduces administrative costs because fewer vouchers are processed and fewer checks are written, it should be used judiciously if one or more of the vendor invoices will be paid late. Under these circumstances, each of the vendor invoices carries the MIR date of the earliest invoice. Therefore, if the combined voucher is late, interest charges will accrue unnecessarily to vendor invoices that are not otherwise paid late. In our sample of late payments, Mid-Orange combined vendor invoices on 42 vouchers. In each instance, some current vouchers were considered late and other late vouchers were considered later than they actually were.

Recommendations

1. Ensure that vendor payments are made timely in accordance with the New York State Prompt Payment Legislation.
2. Central Office and the facility need to coordinate better on the related tasks of planning facility procurements and making allocations of funds available.

3. Date stamp vendor invoices properly and record the correct Merchandise Inventory Received (MIR) date.
4. Adjust MIR dates for any disputed invoices.
5. Notify vendors in writing within 15 days of any problem with goods, services, or invoices received.
6. Instruct all personnel who receive goods that receiving reports should be prepared immediately. Invoices and other paperwork should be forwarded to the vouchering office without delay.
7. Establish and document time frames for the timely approval of payments.
8. Deploy employees to ensure the timely processing of vendor payments.
9. Maintain a record that indicates the reason for each late payment.
10. Do not combine invoices onto one voucher for payment if, as a result, all invoices will be deemed late.

AUDIT SCOPE AND METHODOLOGY

We conducted our performance audit in accordance with generally accepted government auditing standards. The objective was to determine why late payments were made to vendors and whether Mid-Orange Correctional Facility has taken action to remedy the problems. Our audit covered the period April 1, 2005, through December 10, 2007.

To achieve our objective, we obtained a download of late vendor payments made by Mid-Orange from the Office of the State Comptroller's Division of Contracts and

Expenditures for fiscal years 2005-06, 2006-07, and 2007-08. During our scope period, Mid-Orange paid \$10,771 in interest for late payments. We selected a sample of 416 vouchers, totaling \$1.4 million, that were paid late. The sample was chosen from vendors that received ten or more late payments for years 2005-06 and 2006-07, and five or more late payments through July 2007 for fiscal year 2007-08. We reviewed vouchers for 12 commissary and 24 program vendors. We also obtained the relevant policies and procedures regarding vendor payments as issued by the Office of the State Comptroller. We reviewed all relevant invoices and interviewed Mid-Orange and DOCS officials.

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 who 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, Roger C. Mazula, Alexander Marshall, and Jeffrey Dormond.

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

October 1, 2008

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 of Selected Late Vendor
Payments at Mid-Orange Correctional
Facility (Report 2008-S-71).

Dear Ms. Maldonado:

In accordance with Section 170 of the Executive Law and in response to your correspondence of September 3, 2008, attached is the Department's reply to the draft audit report regarding *Selected Late Vendor Payments*, Report 2008-S-71.

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



Brian Fischer
Commissioner

STATE OF NEW YORK
DEPARTMENT OF CORRECTIONAL SERVICES
MID-ORANGE CORRECTIONAL FACILITY
900 Kings Highway
Warwick, NY 10990-0900
(845)986-2291

James A. Nichols
Superintendent

September 24, 2008

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

RE: Selected Late Vendor Payments, 2008-S-71

Dear Ms. Maldonado:

I would like to thank you and your staff for your efforts extended in this audit. Your recommendations will assist us in improving our voucher processing and ensuring timely payments. Below is our response to the audit recommendations:

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

We are in agreement with this recommendation and have discussed the various issues identified in this audit with our vouchering staff, as well as reissuing OSC Accounting Bulletins Prompt Payment Legislation and Document Preparation to use as a tool, as needed.

2. Central Office and the facility need to coordinate better on the related task of planning facility procurements and making allocations of funds available.

We are in agreement with this recommendation. The Steward is now made aware, as soon as possible, when funding is not available and will communicate this to Central Office Staff.

3. Date stamp vendor invoices properly and record the correct Merchandise Inventory Received (MIR) date.

We are in agreement with this recommendation. Our vouchering staff has been instructed on proper date-stamp procedures.

4. Adjust MIR dates for any disputed invoices.

MIR dates will be adjusted in accordance with NYS Accounting System User Procedures Manual Volume III, Section 3.0300, page 5, criteria for determining merchandise/invoice received date and payment date. New invoices will be requested when appropriate.

5. Notify vendors, in writing, within 15 days of any problem with goods, services or invoices received.

We are in agreement with this recommendation. Vendor notification is being performed in writing within the prescribed 15 days, as needed.

6. Instruct all personnel who receive goods that receiving reports should be prepared immediately. Invoices and other paperwork should be forwarded to the vouchering office without delay.

We are in agreement with this recommendation and have discussed this matter with our receiving staff and our reports are now being completed in a timelier manner.

7. Establish and document time frames for timely processing of vendor payments.

We are in agreement with this recommendation. Established time-frames for processing a voucher are as follows: Quick Pay; no later than 20 days after the MIR date. Other vouchers are processed and in the mail to OSC Document Control no later than 10 days after the MIR date to allow for ample mail time and OSC processing time.

8. Deploy employees to ensure the timely processing of vendor payment.

We are in agreement with this recommendation. Our vouchering staff has been instructed to notify us when there is a backlog of invoices and additional staff will be assigned.

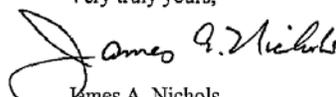
9. Maintain a record that indicates the reason for each late payment.

We are in agreement with this recommendation. Along with having our vouchering staff noting the reason for lateness on the voucher, we started a late payment log which will be maintained by the vouchering supervisor for review and action.

10. Do not combine invoices onto one voucher for payment if, as a result, all invoices will be deemed late.

We are in agreement with this recommendation. Our vouchering staff has been made aware of this issue and instructed not to combine vouchers if there is a conflict with a late payment invoice.

Very truly yours,


James A. Nichols
Superintendent

JAN:lo

cc: P. Berezny, DOCS Internal Auditor V, Bureau of Internal Controls
Executive Team
file