



**SUFFOLK COUNTY
OFFICE OF THE COMPTROLLER
AUDIT DIVISION**

**Joseph Sawicki, Jr.
Comptroller**

Special Investigative Report
Suffolk County Department of Health Services
Revenue Collection at the North County Complex Methadone Clinic
For the Period
January 1, 2013 through March 31, 2013

**Audit Report No.: 2014-11
Date Issued: August 25, 2014**

SUFFOLK COUNTY
OFFICE OF THE COMPTROLLER

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LETTER OF TRANSMITTAL

August 25, 2014

Hon. Joseph Sawicki, Jr.
Suffolk County Comptroller
Suffolk County Department of
Audit and Control
H. Lee Dennison Executive Office Building
100 Veterans Memorial Highway
Hauppauge, N.Y. 11788-0099

Dear Mr. Sawicki:

In accordance with the authority vested in the County Comptroller by the Suffolk County Charter (Article V), and at the request of the Suffolk County Department of Health Services (the Department), an investigation was conducted of the revenue collected at the North County Complex Methadone Clinic (the Clinic), located in the North County Complex in Hauppauge, New York. The Clinic is responsible for collecting client revenue and depositing that revenue into a Suffolk County bank account. On March 4, 2013, the Department was notified by the Clinic of a discrepancy between client payments collected by the Clinic and the cash available at the Clinic to be deposited in the County bank account.

Our investigation focused on the revenue process from the collection of revenue through the deposit of the revenue into the County bank account during the period January 1, 2013 through March 31, 2013. The objectives of our audit were limited to the following:

- To confirm the amount of client revenue reported by the Clinic as misappropriated and to determine if any additional client revenues may have been defalcated from the Clinic.
- To determine whether sufficient evidence exists to identify the individual(s) who may have been involved in the defalcation of revenue.

The investigation consisted primarily of inquiries of Clinic and Department personnel and the examination of related electronic files and documentation.

We conducted our investigation in order to satisfactorily complete our objectives. We believe that our investigative procedures provide a reasonable basis for the findings contained in this report.

Respectfully,

A handwritten signature in black ink that reads "Frank Bayer". The signature is written in a cursive, slightly slanted style.

Frank Bayer, CPA
Executive Director of
Auditing Services

FB:tm

EXECUTIVE SUMMARY

Our investigative audit revealed that \$443 of self-pay client revenue that was collected during the period January 1, 2013 through March 31, 2013 was missing from the Clinic and was therefore not duly deposited into a County bank account. This amount includes the following:

- Client revenue in the amount of \$200 that was collected on March 1, 2013 and was reported by the Clinic as misappropriated on March 4, 2013 was not properly deposited into a County bank account (Schedule 1, p. 11).
- The Clinic manually prepared cash receipts for \$175 of client payments some of which were not recorded on the County's Anasazi system (computer program utilized to track each client's progress in the program) or deposited into a County bank account while others were only partially recorded on the County's Anasazi system and deposited into a County bank account (Schedule 2, p. 12).
- Client payments in the amount of \$68, which the Clinic could not trace to a specific client, were not recorded on the County's Anasazi system or deposited into a County bank account (Schedule 2, p. 12).

We were unable to obtain sufficient evidence to identify the individuals who may have been involved in the purported defalcation of revenue since multiple employees as well as the Clinic's clients had unsupervised access to the cash payments. Furthermore, we were unable to conclusively determine if additional funds were misappropriated from the Clinic because the Clinic did not maintain certain customary cash receipt records, an adequate system of internal control and sufficient records with regard to client payments.

BACKGROUND

The North County Complex Methadone Clinic (the Clinic), located in the North County Complex in Hauppauge, New York is part of the Suffolk County Department of Health Services Division of Mental Hygiene. The Division is responsible for the coordination and oversight of all community services to persons with alcohol and substance abuse problems, mental illness, mental retardation and/or developmental disabilities. Pursuant to this responsibility the Division provides methadone maintenance treatment programs that are accessible to all eligible individuals and families that seek such care through a network of clinics located throughout the County. In addition, non-County residents may also receive treatments while they are visiting the County.

Clients who do not have medical insurance coverage (self-pay clients) are charged a fee for services rendered which is determined by the Department, and is based on income level and family size. Payments are also received for services provided to eligible clients from Medicare, Medicaid, and private health insurance carriers; however, once clients are accepted into the treatment program, they are not denied services due to the inability to pay. All fees collected and payments received by the Clinic are deposited directly into a Department of Health Services bank account.

On March 4, 2013, we were informed that the Department had recently discovered that \$200 of client revenues that were collected at the Clinic was misappropriated. We therefore initiated a special investigation to confirm the amount of revenue reported as misappropriated, to determine if any additional revenues may have been misappropriated and to identify any individuals who may have been involved in the misappropriation.

SCOPE AND METHODOLOGY

To accomplish the audit objectives stated in the Letter of Transmittal (p. 1), we performed the following procedures:

- Interviewed Department and Clinic personnel to obtain an understanding of revenue collection and processing procedures.
- Performed analytical procedures of the County's Anasazi system.
- Reviewed client receipts which were manually prepared by Clinic employees to document client payments.
- Reviewed bank statements and related deposit documentation.
- Prepared schedules of client payments that were not recorded on the County's Anasazi system or deposited into a County bank account.
- Interviewed clients to verify that amounts recorded as paid were correct.
- Reviewed the Clinics original source documentation and policies/procedures relative to the collection of self-pay client revenue to confirm the amount of revenue reported as misappropriated, to determine if any additional revenues may have been misappropriated and to identify any individuals who may have been involved in the misappropriation.

INVESTIGATIVE RESULTS

Our investigative audit revealed that \$443 of self-pay client revenue that was collected during the period January 1, 2013 through March 31, 2013 was missing from the Clinic and was therefore not duly deposited into a County bank account. The results of our investigation are as follows:

We confirmed that \$200 of self-pay client revenue collected by the Clinic on March 1, 2013 and reported by the Clinic on March 4, 2013 as misappropriated was not deposited into a County bank account (Schedule 1, p. 11).

Interview and inquiry with clinic personnel disclosed that the Clinic's primary cash collector was absent on March 1, 2013 and as a result client payments were collected by four clinic employees. Each employee stated that, consistent with the Clinic's customary procedure, each client payment was immediately placed in a cash box that was stored in a desk drawer, both of which we observed were incapable of being locked. We also observed that the desk was situated in a common area with easy access by both employees and clients of the clinic. In addition, we were informed by a clinic supervisor that the desk was left unattended for periods of time on March 1, 2013 due to staff shortages.

We examined the cash receipt copies that were retained in the cash receipt book in use at the time and confirmed that cash receipts were manually prepared by the four employees on March 1, 2013 supporting \$200 of client payments. Our inquiry of the four employees who collected cash and the nurse responsible for securing the cash in the Clinic's safe disclosed that at no time during or at the end of March, 1, 2013 were the client payments placed in the safe. We interviewed the Clinic's primary cash collector who stated that, upon her return on March 4, 2013; she reviewed the cash available at the Clinic for deposit and discovered that \$200 of client revenue collected on March 1, 2013 was neither in the cash box or the safe. At this time she reported the missing cash to management and was instructed to enter the payments into Anasazi (computer program utilized to track each client's progress in the program) to ensure that the client balances were updated even though the associated cash was not available for deposit.

We compared bank deposit ticket information, to the corresponding Anasazi control reports for the period January 1, 2013 through March 31, 2013. Each Anasazi control report should have had a corresponding deposit in the County bank account. Although our analysis confirmed that \$200 of recorded revenue was not deposited into the County bank account, we were unable to obtain sufficient evidence to identify the individuals who may have been involved in the purported defalcation of revenue, since multiple employees as well as the Clinic's clients had unsupervised access to the cash payments.

The Clinic manually prepared cash receipts for \$175 of client payments which were not recorded on the County's Anasazi system or deposited into a County bank account (Schedule 2, p. 12).

We compared bank deposit ticket information, to the corresponding Anasazi control reports for the period January 1, 2013 through March 31, 2013 and confirmed that, with the exception of the \$200 of missing funds described above, all revenues identified in the Anasazi control reports were duly deposited in a County bank account. We also compared the cash receipt copies that were retained in the cash receipt book in use during this time frame to the corresponding Anasazi control reports reviewing the receipt number sequence, amount and deposit date and determined the following:

- Client payments in the amount of \$65, for which the Clinic manually prepared 6 cash receipts, were not reflected in the corresponding Anasazi control reports and therefore were not duly deposited in a County bank account (Schedule 2, p. 12).
- The Clinic manually prepared 14 cash receipts for \$637 of client payments, \$110 of which was not recorded on the County's Anasazi system or deposited into a County bank account (Schedule 2, p. 12).

However, we were unable to conclusively determine if additional funds were missing from the Clinic because the Clinic did not maintain certain customary cash receipt records, an adequate system of internal control and sufficient records with regard to client payments. We also were unable to obtain sufficient evidence to identify the individual(s) who may have misappropriated the client payments, since multiple employees as well as the Clinic's clients had unsupervised access to the cash payments.

Client payments in the amount of \$68, which the Clinic could not trace to a specific client, were not recorded on the County's Anasazi system or deposited into a County bank account (Schedule 2, p. 12).

We were informed by the Clinic's primary cash collector on April 23, 2013 that \$68 of client payments that were collected prior to the reported theft but could not be traced to a specific client were intentionally excluded from the County's Anasazi system and were not duly deposited in a County bank account. Consistent with the Clinic's customary procedure, client payments which could not be traced to a specific client were retained in an envelope in an unlocked desk drawer and were used to supplant subsequent insufficient deposits. We found that these excess funds were not reported to the Clinic's management or to the Department. Although the Clinic's primary cash collector contends that \$68 of related excess funds were duly deposited in June 2013 and the practice was terminated pursuant to our request, we were unable to confirm the disposition of the excess cash or the dates on which the excess cash was deposited. Furthermore, since this procedure was in place at the time of and before the theft occurred, we were unable to determine if any additional client payments were missing from the Clinic.

CONCLUSIONS

Our investigative audit revealed that \$200 of self-pay client revenue collected by the Clinic on March 1, 2013 and reported by the Clinic on March 4, 2013 as misappropriated was not deposited into a County bank account. We also found that \$175 of client payments collected during the period January 1, 2013 through March 31, 2013 were neither recorded in the County's Anasazi system nor duly deposited into a County bank account as was \$68 of client payments received prior to that period.

Although we determined that \$443 of client payments were missing from the clinic, we were unable to obtain sufficient evidence to identify the individual(s) who may have misappropriated the client payments, since multiple employees as well as the Clinic's clients had unsupervised access to the cash payments due to internal control weaknesses such as the following:

- Cash collected during the day is maintained in a cash box until it is purportedly transferred to the safe. Neither the cash box nor the desk drawer in which it is stored is capable of being locked.
- The desk is located in a common area where both employees and clients have access.
- The front desk was left unattended for periods of time on the date of the purported theft due to staff shortages.
- In the absence of the primary cash collector, numerous clinic employees collect client payments.
- The Clinic does not make daily deposits as dictated by Suffolk County Standard Operating Procedure D-08. We found that client payments are entered into Anasazi and deposited into the bank only when the primary cash collector feels that sufficient revenues have been collected to warrant a trip to the bank.
- At no time during or at the end of March, 1 2013, the day of the reported theft, was the client payments placed in the safe.

Furthermore, we were unable to conclusively determine if additional funds were missing from the Clinic because the Clinic did not maintain certain customary cash receipt records, an adequate system of internal control and sufficient records with regard to client payments. Consequently, written receipts for which the Unit has no record or no receipt at all could have been submitted to clients when the payments were made; however the associated payments were not entered into Anasazi or duly deposited in the bank account (unrecorded transaction). We found the following:

- Neither the Department nor the Clinic maintains an accurate, up-to-date inventory of the cash receipt books utilized by the Clinic.
- The Unit does not receive a copy of the 3-part receipt used by the Clinic to initially record revenues received nor does it receive the completed receipt books in order to verify the Agency's Anasazi control reports and the associated bank deposit.
- Payments resulting from treatments that are provided to non-county residents that are entered into the County's Anasazi system are not reflected on the Anasazi control report.
- Since the Department issues receipt books to all Department locations upon request, the receipt books are rarely issued to an individual clinic sequentially from a prior issue. In addition, we found that the Clinic did not utilize the receipt books sequentially and typically requested new books from the Department while having unused books in storage.
- The Clinic's record retention controls are inadequate. Two of the receipt books sent by the Department were missing from the clinic and all 3 copies of one receipt were removed from another receipt book.
- There is a severe lack of segregation of duties related to the Clinic's receipt, recording and depositing of self-pay client revenue since all of these functions are performed by one employee.
- We were unable to determine the accuracy or completeness of \$2,198 of cash payments that were recorded in Anasazi and deposited in the bank but were not supported by client receipts.

Although this report identifies some very serious concerns regarding the Clinic during our period of investigation, specific recommendations are not contained herein. We will issue a management letter which will address internal control weaknesses and present recommendations designed to improve the Clinic's internal controls.

SCHEDULES

Note: The accompanying schedules are an integral part of this report and should be read in conjunction with the Letter of Transmittal (p. 1).

Schedule 1

North County Complex Methadone Clinic
Schedule of Revenue Recorded in the County's Anasazi System
Not Deposited in the County Bank Account
For the Audit Period January 1, 2013 through March 31, 2013

(1) Collection Date	(2) Receipt Number	(3) Total Revenue Not Deposited
3/1/2013	142876	\$ 80
3/1/2013	142877	30
3/1/2013	142878	20
3/1/2013	142879	20
3/1/2013	142880	20
3/1/2013	142881	20
3/1/2013	142882	10
Total		<u>\$ 200</u>

See Notes to Schedules (p. 13)

Schedule 2

North County Complex Methadone Clinic
 Schedule of Revenue Received by the Clinic, Not Recorded in the County's Anasazi System
 Not Deposited in the County Bank Account
 For the Audit Period January 1, 2013 through March 31, 2013

(1) Collection Date	(2) Receipt Number	(4) Amount Received per Receipt	(5) Revenue Reported per Anasazi and Deposited	(6) Revenue not Reported per Anasazi or Deposited
1/22/2013	61049	\$ 10	-	\$ 10
1/29/2013	142784	10	-	10
1/30/2013	142787	10	-	10
2/1/2013	142800	20	-	20
2/7/2013	142990	5	-	5
2/7/2013	142994	10	-	10
Total Revenue Not Reported or Deposited (7)		65	-	65
1/18/2013	61040	40	\$ 20	20
2/1/2013	142954	20	14	6
2/4/2013	142962	200	190	10
2/5/2013	142974	15	10	5
2/6/2013	142981	20	17	3
2/6/2013	142983	22	20	2
2/6/2013	142986	20	15	5
2/7/2013	142964	80	70	10
2/7/2013	142992	40	30	10
2/7/2013	142993	10	4	6
2/7/2013	142995	10	2	8
2/7/2013	142996	100	93	7
2/7/2013	142998	20	12	8
2/27/2013	142865	40	30	10
Total Revenue Partially Reported and Deposited (8)		637	527	110
Other Client Payments (9)	Various	68	-	68
Total Revenue Not Properly Reported and Deposited		\$ 770	\$ 527	\$ 243

See Notes to Schedules (p. 13)

NOTES TO SCHEDULE

- (1) The Collection Date is the date on which the self-pay client revenue was collected by the Clinic as evidenced by a manually written cash receipt.
- (2) The Receipt Number is the sequential number reflected on the manually written cash receipt which is submitted to the client upon the Clinic's receipt of self-pay client revenue.
- (3) The Total Revenue Not Deposited is the total amount of self-pay client revenue recorded in the County's Anasazi system but not deposited into the County bank account. This total agrees with the amount reported by the Clinic as stolen on March 4, 2013.
- (4) The Amount Received per Receipt is the amount of self-pay client revenue collected by the clinic as evidenced by the manually written cash receipt which is submitted to the client upon the receipt of self-pay client revenue.
- (5) Revenue Reported per Anasazi and Deposited is the amount recorded as collected on the Department's Anasazi system (computer program utilized to track each client's progress in the program) and deposited in the County's bank account.
- (6) Revenue not Reported per Anasazi or Deposited refers to self-pay client payments that were collected at the Clinic, as evidenced by manually prepared cash receipts, but were not properly recorded on the County's Anasazi system or deposited in a County bank account. We found \$243 of such payments.
- (7) Total Revenue Not Reported or Deposited refers to self-pay client payments that were collected at the Clinic but were not properly reported on the County's Anasazi system or deposited in a County bank account. We found that \$65 of client payments, for which the Clinic manually prepared cash receipts, were not reflected on the corresponding Anasazi control reports or the County bank statements.
- (8) Total Revenue Partially Reported and Deposited refers to self-pay client payments that were collected at the Clinic but were not fully reported on the County's Anasazi system or deposited in a County bank account. We found that the Clinic manually prepared receipts for \$637 of client payments, \$110 of which was not reported on the County's Anasazi system or deposited into a County bank account.
- (9) Other Client Payments refers to amounts which the Clinic could not trace to a specific client and therefore were not recorded on the County's Anasazi system or deposited into a County bank account. It was the Clinic's customary procedure to retain client payments which could not be traced to a specific client in an envelope in an unlocked desk drawer and to utilize these funds to supplant subsequent insufficient deposits. We found that \$68 of client payments which were purportedly collected prior to the reported theft were on hand at the Clinic during the course of the Investigation.