

**Lexington Center for Recovery, Inc**  
**January 1, 2008 – December 31, 2009**

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# Comptroller's Summary

## Background

Lexington Center for Recovery, Inc. (LCR) was established in 1982 and is a provider of alcoholism and substance abuse treatment with outpatient treatment centers located in Westchester, Dutchess and Rockland counties. The Dutchess County publicly funded alcohol and substance abuse services (including methadone) are conducted in eight Dutchess County locations: Red Hook, Rhinebeck, Dover, Millbrook, Beacon and 3 locations in Poughkeepsie (2 clinics and the methadone program). Additional information can be found at Lexington's website: <http://www.lexingtonctr.org>.

## Audit Scope, Objective and Methodology

An audit was conducted of Lexington Center for Recovery, Inc. for the period January 1, 2008 through December 31, 2009. Dutchess County payments for 2008 totaled \$2,537,630.32 and \$2,465,697.61 for the year 2009. Contracts with Dutchess County were under the auspices of the following county departments: Mental Hygiene, Social Services, Health Department and Stop DWI. A contract summary is shown as Exhibit I. County tax levy funding was \$690,564 in 2008 and \$684,564 in 2009 for the Clinics and Methadone Program. In addition, Dutchess County STOP-DWI fines provided funding totaling \$54,000.00 and \$61,993.22 respectively for 2008 and 2009 for programs.

The objective of the audit was to review financial processes and assess the adequacy of internal controls over financial operations for the Dutchess County contracted services.

## Summary of Findings

Lexington did not have an effective system of internal controls for the following areas:

- Bylaws were not adhered to regarding the full level of appointees on the Board of Directors. In addition, one of the Board of Director's was a Lexington Staff member which presents a potential conflict of interest.
- Policies and procedures to monitor property and equipment inventory at the Clinics were not adhered to resulting in a lack of internal control of fixed assets.
- Policies and procedures were not consistently adhered to regarding oversight and duty segregation for cash collections at the clinics and Methadone Program. In addition, overpayments totaling \$2,357 by clients at the Methadone Program were not returned to clients in a timely manner.
- Procedures to accurately document Dutchess County funding were not in place. For 2008 and 2009, our review revealed a total of \$68,560 was overpaid to Lexington by Dutchess County Mental Hygiene. *DMH has requested NYS OASAS reconsider funding of \$40,741 for 2008.* Prior year funding closeouts for 2003 and 2004 were not complete and funding due to Lexington was not

listed in their financial records. Pending documentation, a net total of \$142,456.76 is due to Lexington for 2003 and 2004.

## **Detailed Findings**

### **Control Environment**

Control environment is the internal control and control consciousness established and maintained by both management and employees and supports compliance with laws, rules, regulations, and management directives. Management is responsible to educate employees regarding the importance of internal controls.

#### Findings:

The organization's control environment was weak in regards to:

- Compliance with board membership.
- Management's awareness of various internal control procedures which were not in place in regards to inventory, cash handling and contract reconciliation.
- Oversight and monitoring of the execution of agency policies and procedures.

#### Recommendations:

Strengthen the control environment. Specifically:

- Increase board membership and eliminate possible conflicts of interest of employee and board oversight.
- Management should increase its knowledge of internal controls regarding accounting activities for inventory, cash receipting and contract reconciliation.
- Management should ensure that employees at all levels understand and are actively performing their roles and responsibilities regarding agency policies and procedures. Oversight and monitoring measures should be instituted by management to ensure adherence.

### **Board of Directors, Bylaws**

The agency's bylaws require a minimum of six directors.

#### Findings:

- The agency was not in compliance with the bylaws which require a minimum of six directors. By reviewing the agency's 2009 Form 990 and a listing of the Board of Directors, it was determined there were only five directors for the year 2009. As of October 5, 2010 there were still only five directors.
- One board member was also an employee of the agency as a counselor. While the agency indicated this individual was not an employee at Dutchess County programs, this is not a 'best practice' to have an employee as a board member as this does not promote independence regarding agency decisions and represents a conflict of interest.

Recommendations:

- The agency should recruit a minimum of one director to be compliant with its bylaws.
- Best practices regarding board practices should be reviewed and implemented to ensure independence. Further guidance, such as the NYS Attorney General's Office, should be sought regarding sound board practices.

### **Control Activities**

Control activities were reviewed for policies, procedures, and tools that would help prevent or reduce risks, ensure data integrity, and allow for the effective and efficient management of resources. Operating procedures should include: authorization and oversight, properly designed records; appropriate security of assets and records; segregation of duties, and periodic reconciliations and verification.

### **Cash Handling - Banking**

Deposits and bank reconciliations were reviewed. Monies received from Dutchess County were deposited timely. Monthly bank reconciliations were also completed timely.

Findings:

- Bank statement balances reached a maximum of \$749,930.87 and a minimum of \$79,050.95 for all bank accounts during 2008 and 2009.
- Balances in one bank exceeded the FDIC insured limit of \$250,000 for 13 of 24 months in 2008 and 2009.
- Bank account reconciliations are completed by the Agency's Director of Finance and according to the agency reviewed by the Board Treasurer; however, reconciliations were not signed or dated to attest to the review.

Recommendations:

- Balances in non-interest bearing accounts should be kept at a minimum. Monitoring by management and the board of the agency's cash balances should be increased.
- Funds deposited in a particular bank should not exceed the FDIC limit.
- Reconciliations should be signed and dated to attest to the review's accomplishment.

### **Personnel Services**

Salary and expenses were charged to the various programs. Expenses for Administrative Staff are allocated to each department based on a ratio value. Other staff members are directly charged to the various programs. Salary expenses claimed to Dutchess County funding were verified to W-2s. No exceptions were noted.

### **IRS Form 1099-Miscellaneous Income (1099-MISC)**

The IRS requires Form 1099-MISC be issued to individuals and certain businesses that receive payment of \$600 or more in a calendar year for services provided. The

form W-9 (Request for Taxpayer Identification Number and Certification) is completed by a vendor and identifies a vendor's business status and allows the 1099 to be properly completed. One vendor received payments for professional services attributed to Dutchess County. The W-9 and 1099 MISC were reviewed for both years and no exceptions were noted.

### **Tax Filing**

CHAR 500, Annual Filing for Charitable Organizations and IRS 990 Information Returns were filed for tax years 2008 & 2009.

### **Mental Health Alcohol and Substance Abuse Treatment Services Contract**

The Dutchess County publicly funded alcohol and substance abuse services (including methadone) which are conducted in eight Dutchess County locations were primarily funded by Contract #05-0025 A8 for 2008 and A9 for 2009.

Dutchess County contracts with Lexington include estimated State and Federal funding and appropriated County funding. Periodic payments to the agency are established by the contract.

The Consolidated Fiscal Report (CFR) is the claiming document required by New York State and Dutchess County Mental Hygiene. New York State OASAS and Dutchess County are the primary deficit funders of this contract.

Expenditures and revenues reported on the CFR were traced to Lexington's general ledger. Expenditures are offset by agency generated revenues which include: patient fees, Medicaid and third party billing. The result is the reported deficit funding which may include: Federal (included in State Share), State, Local (Dutchess County) and Non-funded categories.

#### Findings:

Procedures to accurately document Dutchess County funding were not in place. Specifically, fiscal documentation necessary to perform periodic verifications and reconciliations were not accurate and complete. Oversight, monitoring and communication was lacking regarding funding to Lexington.

2008

- 2008: The CFR completed by Lexington included a separate unauthorized column for a satellite program that should have been included in an approved program site. As a result, NYS did not consider the net deficit reported for this satellite totaling \$60,126. A reconciliation of funding with Lexington was not completed by Dutchess County Mental Hygiene utilizing the NYS OASAS Report dated 11/17/2009. However, payments totaling \$2,141,657 (the contracted amount) were made to Lexington resulting in an overpayment of \$40,741 based on the state reconciliation funding. NOTE: *As a result of our audit, DMH has contacted NYS OASAS and NYS has granted Lexington the*

*opportunity to submit a revised CFR for 2008 to reconsider funding the net deficit.*

- Dutchess County funding for 2008 was increased from \$684,564 to \$690,564 as a result of a request from the agency. Lexington did not include this additional county funding on the CFR as 'local' (county) funding; the OASAS funding reconciliation included this amount in a non-funded total of \$7,975.

2009

- 2009: The CFR completed by Lexington included a net deficit totaling \$2,018,411. Based on a signed document received from Lexington stating their net deficit would be \$2,056,000 by December 31, 2009, Dutchess County Mental Hygiene paid the total contracted amount of \$2,046,230 which resulted in an overpayment of \$27,819. This money is due back to the County.

Recommendations:

- Periodic reconciliations and verification should be instituted.
- Communication regarding funding should be improved and documented to ensure a complete and accurate audit trail.
- Procedures should be implemented by the Board to provide oversight and monitoring to ensure the accuracy of accounting data.

### **2003 to 2007 Contract Reconciliations**

In addition to the current audited years, a review of prior year closeouts for the years 2003 to 2007 was conducted to ensure all funds due to or due from Dutchess County to Lexington were completed. Our review of the county financial records included: contracts, payments, reconciliation documents from OASAS, and the Dutchess County Department of Mental Hygiene.

Findings:

Reconciliations were not completed for the years 2003 and 2004. Lexington did not have amounts listed as receivables or as payables (due from or due to Dutchess County) for these years in their financial records. Our review with records obtained from the Dutchess County Department of Mental Hygiene found additional funding was due to Lexington totaling \$142,456.76. The agency was unaware of these monies and therefore did not have an accurate accounting of the monies due to the agency.

2003

- 2003: The NYS OASAS Claim Reconciliation Report dated 8/4/2010 reported a total NYS approved net deficit funding of \$1,372,999. Dutchess County Mental Hygiene made payments totaling \$1,266,913. The difference of \$106,086 was not recorded in Lexington's records as due from Dutchess County.

2004

- 2004: The NYS OASAS Claim Reconciliation Report dated 3/28/08 reported a total NYS approved net deficit funding of \$1,639,134. Payments made by

Dutchess County for 2004 totaled \$1,602,763.24 resulting in \$36,370.76 due to Lexington. The \$36,730.76 is a netted number which is comprised of two contracts since Methadone was not combined with the clinic contract. The clinic contract was overpaid by \$81,360.24 while the methadone contract was underpaid by \$117,731 based on the NYS reconciliation. The due to Dutchess County of \$81,360.24 and the due from Dutchess County of \$117,731 were not accounted for in Lexington's records.

Recommendations:

- Procedures should be implemented to ensure accounting records for funding are complete and accurate.
- Periodic reconciliations and verification should be instituted.
- Communication regarding funding should be improved and documented to ensure an accurate audit trail.
- Procedures should be implemented by the Board to provide oversight and monitoring to ensure the accuracy of accounting data.

**Cash Handling – Cash Receipting/Accounts Receivable**

The collection of cash from clients and their respective insurances is critical to alleviate the financial burden on the deficit funding provided by New York State and Dutchess County.

Internal controls regarding collection processes and recordkeeping were reviewed. We reviewed Lexington's written collection policies and procedures to actual operating procedures at seven of the eight locations (seven clinics-*referenced as Dutchess Clinics* and the Methadone Maintenance Program).

Findings:

Dutchess Clinics

- Collection procedures at the satellite clinics did not include an attestation of the review of the daily receipts. Satellite clinics stated they had a procedure where daily collections were placed in an envelope and it was initialed; however, the envelope was discarded and not retained to ascertain review.
- Collections and daily cash receipt transmittals for the satellite clinics were held for a week prior to submittal to the main clinic at Manchester Road for a weekly deposit.

Methadone Maintenance Program

- The Methadone Maintenance Program cash collection processes did not include a proper separation of duties: Funds were collected, recorded and deposited by the same individual. A review by a supervisor attesting to the daily collections was not performed.
- The Methadone Maintenance Program accounts receivable ledger revealed funds due to clients. A total of \$2,357 in client outpatient funds were held by Lexington and not refunded.
- The Methadone Clinic did not have their computer systems up and running properly to connect to the main billing office. A separate ledger was maintained which did not agree with the Lexington main billing office.

### Petty Cash

- Petty cash expenditure policies were not always adhered to. A total of \$70.00 was disallowed in 2010 for staff purchases.
- Petty Cash was not reconciled at one clinic.

### Medicaid Audit

- Lexington had undergone a Medicaid audit and had disallowances. The Executive Director reported to us on 3/1/11 "THE AGENCY HAS REACHED A SETTLEMENT WITH THE NEW YORK STATE OFFICE OF MEDICAID INSPECTOR GENERAL (OMIG). THE FINAL AMOUNT IS \$195,072.55. OF THIS, \$114,530 IS THE NEGOTIATED AMOUNT FOR DUTCHESS COUNTY. WE ARE PAYING THIS AMOUNT BACK THROUGH A 10% WEEKLY MEDICAID RECOUPMENT. AS OF OUR LAST MEDICAID DATED 1/17/2011, \$33,631 REMAINED TO BE PAID BACK...THIS WILL BE ADDRESSED IN OUR 2010 CFR FINAL REPORTS."

### Recommendations:

#### Dutchess Clinics

- A written attestation of the daily collections at each site should include the initials of the individual who prepared the daily cash receipt report and a supervisory individual who counted and verified the daily collections to be deposited.
- The agency should deposit funds more frequently for better internal control. A daily reconciliation of collections should be forwarded to designated management for daily verification that funds were deposited.

#### Methadone Maintenance Program

- Cash collection process at the Methadone Maintenance Program should include a review and attestation by the supervisor of daily collections. Segregation of duties should be immediately improved.
- Processes for accounts receivable and due to clients should be developed at the Methadone Maintenance Program to ensure funds are disbursed and accounted for in a timely manner.
- System operation problems should be addressed and corrected immediately.

#### Petty Cash

- Petty Cash policies should be adhered to and funds used for the benefit of the client only.
- Petty Cash should be reconciled and periodic monitoring of clinic sites should include a review of documentation and cash counts.

#### Medicaid Audit

- Lexington should implement procedures to ensure all costs billable to Medicaid are valid and proper.

### **Inventory – Dutchess Clinics and Methadone Maintenance Program**

Based on the agency's audited Financial Report, the property and equipment for Lexington had a gross value of \$597,842 in 2008 and \$737,825 in 2009.

The agency Fiscal Policy and Procedure Manual requires equipment purchases be reviewed and approved by the Office of Alcoholism and Substance Abuse Services' (OASAS) and all equipment, whether acquired by purchase, loan or donation, have a tag with ID number attached. In addition, the manual requires a recordkeeping system capable of producing inventory listings by site, and to include the acquisition date, identification number, funding source, deployment, condition and utilization. Also required is an annual physical inventory, procedures for reporting lost or stolen equipment and procedures for disposal of obsolete equipment.

Findings:

- Lexington did not adhere to their fiscal policy and procedures regarding inventory. Inventory records were not properly designed, there was not an appropriate security of assets and periodic verification was not evident for all Dutchess sites. Oversight and monitoring procedures were not in place.
  - We requested inventory listings for each Dutchess site and were provided incomplete copies of OASAS Equipment Acquisition and Disposition forms. A comprehensive listing was not available for Clinic sites.
  - A physical inventory was conducted at various sites. It was not possible to reconcile the listings to the equipment on hand at the Dutchess Clinic locations. Many of the items sampled were found to be without agency ID tags. At the Beacon Clinic none of the equipment observed had agency identification tags attached.
  - The Methadone program did have a listing and all items sampled were easily identifiable and traceable to the listings.
- By not having a proper accounting of the property and equipment, Lexington has placed an unnecessary risk on the agency.

Recommendations:

- Lexington should institute appropriate control over inventory. Records should be properly designed to ensure a comprehensive listing of inventory is maintained for each location. Periodic review should be instituted to ensure inventory listings are accurate and up-to-date. Management should institute oversight procedures to ensure compliance.
- All assets should be properly secured and accounted for to reduce unnecessary risk on the agency and to provide adequate internal controls. Risk assessment should include an on-going review of the agency's inventory and procedures.

*Note: The auditors were informed that one individual from the Manchester Road Clinic will be reassigned to the Mount Kisco offices. One of the primary responsibilities of this individual will be to implement a proper and comprehensive inventory process.*

## **Other Contracted Funding with Dutchess County**

### **Mental Hygiene Contract – Co-location Program (#07-0472)**

A total of \$339,157.32 was expended for 2008 and \$347,939.39 was expended for 2009 for personnel services and miscellaneous expenses for a co-location program. Funding was provided to DMH from Dutchess County Social Services to fund a co-location program for chemically dependent clients as a collaborative effort between DSS, Mental Hygiene, CAPE (Council for Addiction Prevention and Education) and Lexington Center for Recovery. The program purpose was to identify, refer and motivate chemically dependent individuals applying for or receiving child welfare services to maintain family cohesiveness resulting in a decrease in the number of children placed in foster care.

### **DC Stop DWI Contracts – Cognitive Group Therapy (#08-0207)**

A total of \$15,000 was expended for 2008 and \$14,994 was expended for 2009 to reimburse personnel services and miscellaneous expenses associated with providing a Cognitive Group Therapy Program for repeat DWI offenders.

### **DC Stop DWI Contracts – Evaluation and Treatment (#08-0208)**

A total of \$39,000 was expended in 2008 and \$46,999.22 was expended for personnel services and miscellaneous expenses in 2009 to provide a chemical dependency evaluation and clinical treatment for all DC residents who apply for services in connection with a DWI violation.

### **DSS - Rental Contract (#09-0144)**

A total of \$8,604 was contracted and expended for rental expenses in 2009 for a sublease of 956 sq. ft. on the 2<sup>nd</sup> floor of 412 Main St, Poughkeepsie, NY. The space was leased and used by the Department of Social Services.

### **DSS - Direct Warrant Payments**

A total of \$2,816 was expended for 2008 and a total of \$931 was expended on behalf of DSS clients for eligible services received from Lexington.

## Exhibit I - Lexington Funding with Dutchess County

### Expense Contracts

		2008	2009
<b><u>Mental Hygiene</u></b>			
05-0025-12/05-MH	Provide Alcohol & Substance Abuse Clinics and a Methadone Maintenance program	\$2,141,657.00	\$2,046,230.00
07-0472-12/07-MH	Implement and Provide a Co-location Program	\$339,157.32	\$347,939.39
<b><u>Dutchess County Stop DWI</u></b>			
08-0207-12/08-MS	Provide a Cognitive Group Therapy Program with Probation for DC Stop DWI	\$15,000.00	\$14,994.00
08-0208-12/08-MS	Provide Chemical Dependency Evaluation and Clinic Treatment--DC STOP DWI	\$39,000.00	\$46,999.22
<b><u>Social Services</u></b>			
09-0144-12/09-SS Direct thru DSS	Provide Sub-Lease 412 Main St Warrant Payments	\$2,816.00	\$8,604.00 \$931.00
Total Expense Contracts		<u>\$2,537,630.32</u>	<u>\$2,465,697.61</u>

### Revenue Contracts

<b><u>Mental Hygiene</u></b>			
04-0405-12/04-MH REV	Rental for Methadone Clinic at DCDMH	\$10,810.00	\$10,810.00
<b><u>Health Department</u></b>			
08-0335-12/08-HD REV	DC DOH to permit LCR the use of its Beacon District Office facilities	No Consideration	