

INTERNAL AUDIT REPORT

CITY OF MANCHESTER

NEW HAMPSHIRE



Office of Youth Services
March 31, 2009

Prepared by
City of Manchester, NH
Office of the Independent City Auditor

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OFFICE OF YOUTH SERVICES
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TABLE OF CONTENTS

LETTER OF TRANSMITTAL	1
INTRODUCTION	3
AUDITEE BACKGROUND.....	5
INTERNAL CONTROLS – MATERIAL WEAKNESSES	
OBSERVATION 1 CONTROLS OVER OUTREACH WORKERS:.....	7
OBSERVATION 2 FINANCIAL MONITORING:.....	8
INTERNAL CONTROLS – SIGNIFICANT DEFICIENCY	
OBSERVATION 3 CASH RECONCILIATIONS:	10
COMPLIANCE ISSUES	
OBSERVATION 4 ON-CALL PAY:	11
OBSERVATION 5 EXPENDITURE TESTING ERRORS:	12
OUTREACH WORKERS	
OBSERVATION 6 OUTREACH WORKERS’ HOURS:.....	14



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*Committee on Accounts, Enrollment and Revenue Administration
City of Manchester, New Hampshire
Honorable Aldermen: Sullivan, Lopez, Devries, M.Roy, Ouellette*

Dear Honorable Committee Members:

On February 24, 2009 I was informed of an allegation of a no-show employee at the Office of Youth Services (OYS). An investigation had been conducted by the Human Resources Department and found that it was possible that an employee had been paid as a full-time employee but was working only part-time. After discussing the matter with the HR Department personnel and conducting some preliminary interviews I determined that an investigation of the allegations justified. I also determined that as part of the investigation an audit of the internal control structure at the OYS was needed as well as an audit of certain financial information.

Audit Scope

The audit studied the controls in place and compliance with selected City policies and procedures and looked at expenditures from July 1, 2008 to March 31, 2009. In addition, the job requirements, qualifications and available performance data was examined for the employee suspected of being a no-show employee and compared to the other OYS employee with the same job description and that of other similar non-profit organizations across the City who work with at-risk youths.

The audit procedures began with a documentation and evaluation of the internal control structure in place during the audit period. The audit also looked at State and City laws and regulations in force during the audit period. Department Personnel were interviewed, as were personnel from other communities and departments.

Conclusion

My testing revealed that for the majority of the audit period and in prior years there was inadequate internal controls in place to track the time, activity or performance of the outreach workers. Because of the lack of documentation of time it was not possible to determine with certainty if either of the outreach workers were conducting OYS business for at least 40 hours per week. It is clear that both outreach workers interact with at-risk youths on a regular basis and provide a valuable service to the City of Manchester. It appears that one of the workers may be counting some volunteer work as City work due to the work having a dual purpose.

Testing also revealed a need for an accountant at the OYS to handle the finances of the agency. The lack of financial expertise was attributable to some small errors noted in expenditure testing. OYS has been receiving more grants funding in recent years that will put a further strain on its ability to process and report the financial transactions of the agency without an employee with an accounting and computer background.

Government Auditing Standards require that a peer review be conducted every three years for an audit organization reporting under the standards. The Office of the Independent City Auditor has not had a peer review in accordance with the standards.

Government Auditing Standards require that I plan and perform my audit to obtain reasonable assurance that my audit objective as described in the first paragraph and scope section on page 1 were achieved. Except for the matter mentioned in the preceding paragraph and the scope limitation mentioned in the first paragraph of the conclusion section, my audit was conducted in accordance with Generally Accepted Government Auditing Standards applicable to attestation engagements

The draft audit report was sent to the OYS for review and comment. The observations generated and the auditee written responses are included on pages three through fifteen. The auditee responses indicate general agreement with the report recommendations and states that corrective actions will, or in most cases, have been taken. I appreciate the courtesy and cooperation of the staff and administration of the OYS on this assignment. At all times they acted in the highest professional manner throughout the course of the audit. I also would like to thank the staff at the many non-profit agencies I visited whose help was much appreciated.

Kevin M, Buckley
Independent City Auditor

June 11, 2009

INTRODUCTION

AUDIT BACKGROUND

On February 24, 2009 I was called into the Office of the City Solicitor to discuss a potential problem in the Office of Youth Services (OYS). A complaint was brought to the attention of the City Solicitor about a possible employee who was getting paid without actually coming to work. According to the complaint, a youth services outreach worker was not attending work on a regular basis. The worker is also an assistant basketball coach at a local university and regularly attends games and practices during normal work hours.

The City Security Officer had completed an investigation and it was felt that there was enough evidence for my office to conduct an audit of the Office of Youth Services.

AUDIT SCOPE AND OBJECTIVES

Scope:

The audit period for evaluating the internal controls in place and compliance with selected controls would be the nine months ended March 31, 2009.

I also tested expenditure transactions during the audit period.

Revenues were determined to be immaterial to the agency and only the internal controls over the collection and posting of cash would be documented and evaluated.

Originally the controls over grant reporting were to be tested but due to time constraints only the documentation and evaluation of the controls over grant reporting was completed. Grants comprise only a small part of OYS activities currently and controls over expenditures were tested which included grant expenditures.

An attempt to test the activities of the outreach workers was not possible due to the incompleteness of hourly time records however, the activities of the employees was determined through review of their personnel files and inquiry of knowledgeable parties.

Audit Objectives:

The objectives of the audit were to determine if the outreach workers at the OYS were actually full-time employees of the City of Manchester.

Specifically, to determine:

- If controls were in place to accurately record the activities of outreach workers
- If outreach workers were working at least 40 hours per week throughout the year

- To determine if performance data of outreach workers activities were collected and evaluated in order to determine the effectiveness of outreach worker activities and achievement of OYS program goals.

The results of my testing and the related observations and recommendations are included in the report that follows.

AUDITEE BACKGROUND

Organization and Personnel

As of March 31, 2009 the Office of Youth Services (OYS) consisted of 10 full-time employees, 2 part-time employees, 3 interns and 1 long-term volunteer. Three Fire Department employees also provide services for the Firesafe Program.

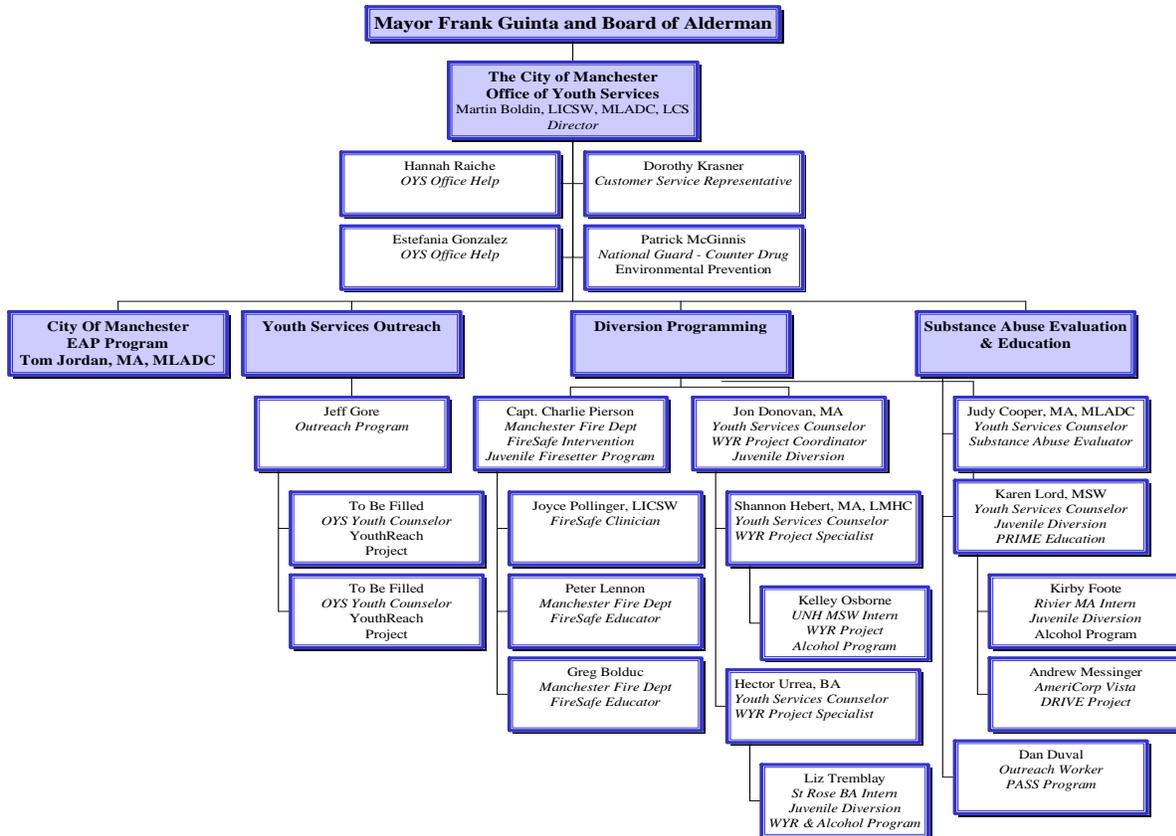
OYS includes the Employee Assistance Program and its one employee that was outside of the scope of the audit.

The Youth Services Advisory Board consists of 15 members. City ordinances do not spell out the make up of the advisory board however; its members include representatives of many of the agencies providing assistance to the youths of the City. The Board’s purpose is to advise the OYS on matters of importance.

OYS consists of youth service outreach, diversion programs, and substance abuse, evaluation and education programs.

Diversion programming includes the FireSafe Intervention Juvenile Firesetter Program and the Wrap for Youth Resiliency program (WYR).

The City of Manchester Office of Youth Services Organization Chart (6/09)



History

The OYS was started in 1971 as a court diversion program. Currently it handles a variety of activities and a number of programs designed to help troubled youths and their families to prevent crime and violence among youths while being a voice for youth as individuals and in public policy.

INTERNAL CONTROLS - MATERIAL WEAKNESSES

A significant deficiency in internal control is defined by *Generally Accepted Government Auditing Standards* (GAGAS) as: a deficiency in internal control or combination of deficiencies, that adversely affects the entities ability to initiate, authorize, record, process or report financial data reliably in accordance with *Generally Accepted Accounting Principles* (GAAP) such that there is more then a remote likelihood that a misstatement of the entities financial statements that is more than inconsequential will not be prevented or detected. A material weakness is a significant deficiency or combination of deficiencies, that results in more then a remote likelihood that a material misstatement of the financial statements will not be prevented or detected.

As part of my audit of the duties of the outreach workers at OYS I gained an understanding of the internal controls in place used to ensure that personnel are paid for only time worked on OYS business and that the output of the workers was conducted in accordance with the objectives of management and the programs at OYS. My evaluation of the internal control system at OYS revealed the following problems encountered during the audit period that I believe to be material weaknesses of the internal control system at OYS.

OBSERVATION 1: CONTROLS OVER OUTREACH WORKERS

Observation:

The job of outreach worker involves going into the community and monitoring youths in order to identify at-risk youths and refer them to appropriate services. The work requires that the outreach worker be away from the office a majority of the time in order to be in the places where at risk youths will most likely be found. They meet with youths to explain applicable programs and services, provide information, perform short-term counseling and needs assessment and make referrals to the appropriate agencies.

Because of the unique nature of the job, outreach workers are required to perform some of their duties during evening and weekend hours when at-risk children are most likely to be out in situations when they can be contacted. Outreach workers are in constant contact with high risk children in both public and private locations. They meet with at-risk children in private in order to provide evaluation and counseling and will transport them to functions and service providers in their private vehicles.

The nature of the job and the risk to both the City as well as the outreach worker makes it extremely important that the OYS know where the workers are and what they are doing at all times. It is also important that the outreach workers are maintaining case files on all their contacts and providing performance data to the OYS Director in order for the OYS to be able to evaluate the effectiveness of their programs as well as the effectiveness of the outreach workers themselves.

From documentation provided it was noted that up until February of 2009 the outreach workers were basically unaccountable for their time or actions. Prior to February of 2009 outreach workers were not required to submit schedules of where they would be during the next week or report where they had been the prior week, who they had talk to, what programs clients were referred to,

what was the outcome of the referral or were required to provide any written reports or performance data. This situation has been going on since the inception of the outreach workers during FY 1990. During the November 27, 2006 meeting of the Youth Services Advisory Board a Board member cited the need for counting the number of outreach youths and returning youths each year. Again in March of 2008 the Board discussed the need for additional data from outreach workers.

In a February memo from the OYS Director new requirements were put in place for outreach workers. The reporting requirement on timesheets was changed so that the actual hours that every employee worked would be recorded including the start and stop times. All OYS staff are now required to provide information on type, location and outcome of services both inside and outside the office. Outreach workers are now required to submit a schedule of projected activity for the coming week.

Recommendation:

I commend the department for its quick action to resolve the issues with the outreach workers. It is recommended that the outreach workers also notify the office prior to doing unscheduled work with youths if possible and in emergency situations to be required to document the activity and submit a report of the incident the next business day.

Auditee Response:

These recommendations will be adopted to policy by 7/1/09

As part of the evaluation of internal controls the system of financial controls was evaluated as a whole in order to determine if the agency had controls in place to ensure that timely, accurate, and reliable information was recorded in the City's accounting records and reported to management and outside parties. The following situation was noted:

OBSERVATION 2: FINAINCIAL MONITORING

Observation:

For an entity to run and control its operations, it must have relevant, reliable and timely communications to internal as well as external parties. Information is needed throughout the agency to achieve all of its objectives. Managers need both operational and financial data to determine if they are meeting their agencies' strategic and annual performance plans and meeting their goals for accountability for effective and efficient use of resources. Operating information is needed to determine whether the agency is achieving compliance with federal, state and local regulations. Financial information is needed for both internal and external uses. It is required to develop financial statements for periodic external reporting, and, on a day-to-day basis, to make operating decisions, monitor performance and allocate resources.

The main source of financial information in the City is the HTE financial reporting system. It is important for any City agency to be able to access the system and look up information and print reports of activity. OYS is accounted for in the City's General Fund and has several projects that capture financial information for the grants that the OYS administers. The grants all have periodic reporting requirements to outside parties. The OYS also has a balance sheet account that is used to collect revenues and expenditures of the Alcohol Education (PRIME), Restitution, and Shoplifting (YES) programs.

From my audit work it was noted that the OYS does not have any employees that are proficient in the use of the HTE system. OYS relies on the Finance Department to monitor account balances, print reports and obtain information from the system needed to fulfill its grant management and financial reporting requirements. The OYS does maintain Excel spreadsheets in order to track balances but requires reports run by the Finance Department in order to reconcile them to the HTE system. The OYS does not have the ability to enter its own budget into the system and due to this the amounts budgeted into each object code have not reflected the actual spending patterns of the department. For example in the FY 2009 budget \$1,000 and \$200 were budgeted in Clothing-Welfare and Medical Supplies respectively but the OYS has not spent money in these categories for the past three years.

Recommendation:

The OYS has a great need for an employee with a financial background who understands both the City accounting system and grants management and reporting requirements. The OYS should either train an existing employee to handle these duties or hire a new employee with the proper financial background to handle the business affairs of the office.

Auditee Response:

OYS agrees with this recommendation. The OYS Advisory Board has committed a workgroup to developing a strategy to develop and sustain this resource at OYS.

INTERNAL CONTROLS - SIGNIFICANT DEFICIENCY

The following observation is a problem noted at the OYS that I believe is a significant deficiency according to GAGAS but did not rise to the level of a material weakness.

OBSERVATION 3: CASH RECONCILIATIONS

Observation:

The Customer Service Representative (CSR) at OYS collects payments over the counter and records them to a daily cash log and issues a receipt. The deposit is prepared by a Youth Service Counselor (YSC) and the amount is reconciled by the YSC to the receipts collected by the CSR. The deposit slip from the bank is then returned to the CSR. Once a month the OYS Director will record the deposits to a spreadsheet and sends a copy to the Finance Department for reconciliation to the General Ledger cash account. At no time during this process is the deposit reconciled to the daily cash log kept by the CSR by a person independent of collection or deposit of the cash.

Recommendation:

Monthly when he is recording the deposits to his spreadsheet the Director should reconcile the amount to the daily log kept by the CSR. This would ensure that all revenue recorded by the CSR was deposited by the YSC in a timely manner.

Auditee Response:

OYS will comply with this recommendation in a policy change to occur on 7/1/09.

COMPLIANCE ISSUES

OBSERVATION 4: ON-CALL PAY

Observation:

Three employees at OYS receive \$210 every third week for “on call pay”. This is pay for being on call as part of the employee assistance program for emergency counseling of employees with alcohol and drug problems. All three employees have extensive training in alcohol counseling and are paid to carry a pager so that a city employee or client of the OYS who is in crisis with a drug or alcohol problem can reach one of the three employees 24 hours a day. They take turns bringing the pager home so each receive the pay every third week.

No mention could be found in the City of Manchester Code of Ordinances for on-call pay but section 33.060 addresses “Stand-by” duty. Stand-by duty is defined as “Any employees who are assigned during their normal off-duty hours by their departments to stand-by duty, in immediate communication with the department during the stand by period, and available at a minimum notice for emergency call-back duty shall be compensated for the inconvenience resulting thereby.....”

The ordinance then sets the amount of pay at \$10 per day during the normal work week and \$20 per day during weekends and holidays. The ordinance also states that exempt employees shall not be entitled to standby duty pay unless such standby duty pay is part of a collective bargaining agreement or is approved by the BMA.

All three employees receiving on-call pay are exempt employees and none are in a collective bargaining unit.

From a review of the ordinance and collective bargaining agreements the responsibilities of on-call pay are the same as stand-by pay. The highest weekly payment per collective bargaining agreements for stand-by pay on a non-holiday week would be \$135 paid to Fire Department employees.

I had the City Archivist search for any reference to the on-call pay and could only find one reference to it on 10/02/89 during a meeting of the Special Committee on Alcohol and Drug Abuse. The minutes never mention an amount to pay for the service.

I was unable to determine if the BMA has ever specifically approved on-call pay for these three exempt employees or any reference to how the \$210 amount was arrived at or approved.

Cost to the department during the audit period for on-call pay was: \$4,890 to the OYS and \$2,520 to the EAP. Total annual cost would be \$10,920. Records obtained from the pager company indicates that for the 24 weeks between December 1, 2008 and May 21, 2009 a total of 20 messages were paged out or less than 1 per week.

Recommendation:

The OYS should seek to have the BMA change the ordinance to allow for on-call pay for the substance abuse employees at the OYS and approve the weekly rate of pay.

Auditee Response:

OYS Staff recalls that the pager program was put in place before staff became exempt. Staff indicates that Alderman Whiby (circa 1995-1997) was a key proponent of the idea. The pay scale was conceived to be less expensive than emergency services provided by the mental health center. The assertion being that mental health staff was paid \$100 nightly for a similar service. Plans to advertise the number in coming months will likely increase use which has been somewhat less more recently than at other times in this history of the service. OYS will consult with BMA to insure that appropriate mechanisms are in place to pay for the service.

OBSERVATION 5: EXPENDITURE TESTING ERRORS

Observation:

A sample of 40 non-payroll items was selected for testing. Out of the 40 selections three errors were found.

- 1) A \$787 rent payment for the lease payment on the EAP office was charged in error to the OYS rent line.
- 2) A mileage reimbursement to one employee was overpaid by \$39.96. The reimbursement was submitted on a two page invoice. The first page of the invoice was for \$39.96 and the second page was for \$23.75. The second page contained a line that totaled both pages. In error the total amount from the second page was added to the amount from the first page when payment was made to the employee thereby double paying him for the first page's submission.
- 3) The January rent payment included \$244.87 for a rent adjustment due to increases in the property tax. The lease did not allow for this increase. When it was brought to the attention of the landlord by the auditor the amount was credited to the next months account balance.

As noted in observation N-1 the OYS does not have an employee with an adequate accounting background on staff. They rely on the Finance Department to catch such errors as noted above. The employee at the Finance department has other duties and is not as familiar with the nuances of transactions at the OYS as an employee would be who actually works there. It is therefore not unexpected that these types of small errors are able to get through.

Recommendation:

As recommended in observation 2 The OYS has a great need for an employee with a financial background who understands the city accounting system. The OYS should either train an existing employee to handle these duties or hire a new employee with the proper financial background to handle the business affairs of the office.

Auditee Response:

1. This was an OYS accounting error. By complying with the auditor's recommendations this type of error should not recur.
2. This was an OYS accounting error. By complying with the auditor's recommendations this type of error should not recur. The employee did repay the city for this error.
3. Complying with the auditor's recommendation should alleviate this kind of error occurring in the future.

OUTREACH WORKERS

OBSERVATION 6: OUTREACH WORKERS' HOURS

Observation:

Good accounting practices require that careful records be kept to record the time employees are actually working and to document the outcome of their efforts. This not only ensures that employees are indeed working the hours required of their job duties but also provides information necessary to adequately prepare the annual appraisals used to grant promotions and step increases. It also provides valuable performance data that is vital to ensure that programs instituted by the organization are achieving their desired outcomes. As noted in observation 1 up until February of 2009 the OYS did not require such documentation from its outreach workers.

Due to the lack of records I was unable to determine if the outreach workers were working full-time for the OYS prior to February of 2009. There were areas and times when it could appear to an outside observer that the outreach workers were not working full-time. This could be explained by the irregular hours that the job requires. Many times they work nights and weekends and can be called in for emergencies at all hours. The nature of the job also entails that they are not always in areas where the general public would see their activities such as home visits. Interviews with area agencies that routinely work with at-risk children revealed that the outreach workers rarely if ever are seen there. But as one of the outreach workers explained, does it really make sense to go to a place where trained outreach workers and counselors are already working with the at-risk kids?

One instance did come to my attention where an outreach worker who is employed part-time as a university basketball coach also works three weeks out of the year at a basketball camp run by the university. The camp director is the university's head coach and the three assistant coaches are listed as program directors. The camp charges participants \$220 per week to attend. Per an interview with the outreach worker he is paid for coaching by the university but the understanding is that he will work at the camp as part of his employment.

The outreach worker arranges for scholarships to the camp for several of the at-risk children he works with as part of his OYS duties and brings them to the camp to work with them as part of his camp duties. Because he works with these at-risk children at the camp he considers time spent at the camp as OYS time for payroll purposes. He also considers himself as an unpaid volunteer at the camp.

It does not appear appropriate for the outreach worker to count time worked for another entity, whether paid or unpaid, as work for the OYS. An employee can only be employed by one employer at a time. Questions arise such as, if he got injured at the camp who would be responsible for the workers compensation claim? Does the City assume all liability for his actions at the camp or does the university assume the liability?

Recommendation:

The outreach worker should not be counting time worked at the camp as City paid time. If the outreach worker is working exclusively at the camp during those three weeks leave time should be charged to the employee.

Auditee Response:

OYS Agrees.

APPENDIX