



*The City of New York
Office of the Comptroller
Bureau of Financial Audit*

WILLIAM C. THOMPSON, JR.
Comptroller

**Audit Report on the Contract of
Leake and Watts Services, Inc., with
The Department of Juvenile Justice**

FL02-158A

June 24, 2002

The City of New York

*Office of the Comptroller
Bureau of Financial Audit*

**Audit Report on the Contract of
Leake and Watts Services, Inc., with
The Department of Juvenile Justice**

FL02-158A

EXECUTIVE SUMMARY

On August 18, 1999, the New York City Department of Juvenile Justice (DJJ), entered into a three-year contract with Leake and Watts Services, Inc. (LWS), to operate a non-secure detention group home facility for youths who are in the custody of the Department of Juvenile Justice. The initial term of the contract is from November 1, 1999, to October 31, 2002, with three one-year renewal options. For our audit period—November 1, 2000, through October 31, 2001—LWS received \$743,782 from DJJ to operate the facility and provide food, clothing, shelter, education, health care, recreation, and case management for the residents in its care.

This audit determined whether LWS maintained complete and accurate records to support its expenses, whether those expenses were reasonable and necessary, and whether LWS provided safe and sanitary conditions for its residents. We verified that all revenue received from DJJ was properly recorded on the LWS books and records and deposited in the LWS bank account. To determine whether LWS charged only for facility-related expenses to the DJJ contract, we reviewed payroll and personnel records, invoices and supporting documentation for all expenses reported on the LWS “Monthly Expenditure Report” for the audit period. We reviewed original invoices, payment vouchers, canceled checks, and supporting documentation for each transaction, noting the description of the item purchased or services rendered, checking for proper approvals and mathematical accuracy.

LWS generally adhered to the provisions of its agreement with DJJ and had an adequate system of internal controls over the recording and reporting of its revenues and expenses. All revenue received from DJJ was properly recorded on LWS books and records and was properly deposited. All expenses were reasonable and appropriate, and were adequately documented. In addition, LWS provided adequate, safe, and sanitary conditions for the residents of the facility.

However, LWS did not ensure that all employees recorded their arrival and departure times. Therefore, we recommend that LWS do so. In his response, LWS’s Chief Financial Officer stated that he accepts the report. DJJ’s Director of Audit responded that DJJ will monitor the group home to ensure that all employees record their arrival and departure times.

INTRODUCTION

Background

On August 18, 1999, the New York City Department of Juvenile Justice (DJJ), entered into a

three-year contract with Leake and Watts Services, Inc. (LWS), to operate a non-secure detention group home facility for youths who are in the custody of the Department of Juvenile Justice. The initial term of the contract is from November 1, 1999, to October 31, 2002, with three one-year renewal options.

For our audit period—November 1, 2000, through October 31, 2001—LWS received \$743,782 from DJJ to operate the facility and provide food, clothing, shelter, education, health care, recreation, and case management for the residents in its care.

Objectives

The objectives of this audit were to determine whether LWS:

- Maintained adequate internal controls over the receipt and expenditures of contract funds; and,
- Spent all contract funds on program-related expenses.

Scope and Methodology

The audit covered the period November 1, 2000, through October 31, 2001. To determine whether the facility provided adequate and sanitary conditions for its residents, we visited the facility on April 15, 2002. We verified whether the facility was clean and whether fire extinguishers and smoke detectors were installed.

We reviewed and abstracted the agreement between DJJ and LWS and reviewed applicable Procurement Policy Board and New York State regulations governing LWS operations. We interviewed the LWS Assistant Director and Payroll Coordinator. We documented these interviews in memoranda and made a flowchart of LWS procedures to document our understanding of LWS's internal controls over the recording and reporting revenue and expenses.

We verified that all revenue received from DJJ was properly recorded on LWS books and records and deposited in the LWS bank account. We also confirmed that the amounts reported on "Monthly Expenditure Reports" matched the amounts that LWS received from DJJ.¹

To determine whether the DJJ contract was charged only for facility-related expenses, we reviewed documentation (i.e., invoices and canceled checks) for all expenses reported on the LWS "Monthly Expenditure Report" for the audit period. We analyzed and reviewed the original invoices, payment vouchers, canceled checks, and supporting documentation for each transaction, noting the description of the item purchased or services rendered, checking for proper approvals and mathematical accuracy, and determining whether all expenses were recorded on the LWS general ledger.

¹ The "Monthly Expenditure Report" contains expenses incurred for the operation of the shelter, and is the basis for the monthly billing to DJJ.

To determine whether the LWS payroll was accurate and allowable in accordance with its agreement, we verified whether salaries paid were properly allocated to the DJJ contract and within prescribed budgets. We also reviewed timekeeping records for 26 employees who worked on the DJJ contract, and verified whether LWS employees were cleared through the New York State Central Register, as required by § 424-a of the Social Service Law.

This audit was conducted in accordance with generally accepted government auditing standards (GAGAS) and included tests of the records and other auditing procedures considered necessary. This audit was performed in accordance with the City Comptroller's audit responsibilities, as set forth in Chapter 5, § 93, of the New York City Charter.

Discussion of Audit Results

The matters covered in this report were discussed with LWS and DJJ officials during and at the conclusion of this audit. A preliminary draft report was issued to LWS and DJJ officials and was discussed at an exit conference on May 15, 2002. On May 29, 2002, we submitted a draft report to LWS and DJJ officials with a request for comments. We received a written response from LWS on June 13, 2002. In his response, LWS's Chief Financial Officer stated that he accepts the report. We received a written response from DJJ on June 18, 2002. DJJ's Director of Audit stated that DJJ will monitor the group home to ensure that all employees record their arrival and departure times.

The full texts of the LWS and DJJ responses are included as an addendum to this report.

**OFFICE OF THE COMPTROLLER
NEW YORK CITY**

DATE FILED: *June 24, 2002*

FINDINGS AND RECOMMENDATIONS

LWS generally adhered to the provisions of its agreement and had an adequate system of internal controls over the recording and reporting of revenues and expenses. It maintained complete and accurate records to support expenses, and its expenses were reasonable and necessary. In addition, LWS provided adequate, safe, and sanitary conditions for the residents of the facility. In other areas covered by this audit, we concluded that:

- Revenues received from DJJ were properly recorded and deposited;
- Expenses were properly recorded and all necessary documentation was maintained;
- Expenses were made in accordance with the DJJ-approved budget;
- Salaries paid to employees were within prescribed budgets;
- Fire extinguishers and smoke detectors were installed throughout the facility;
- Clean and sanitary conditions were maintained.
- Employees were cleared through the New York State Central Register, as required by the Social Services Law.

However, as discussed in the following section, LWS needs to improve its controls over its timekeeping function.

Inadequate Controls Over Timekeeping

LWS maintains a logbook in which employees are required to record their arrival and departure times. We reviewed the logbook and found that at least once during the two-month period reviewed 14 of 26 sampled employees did not record their arrival or their departure times.. One of the 14 employees failed to record his departure times on 26 days.

Complete and accurate daily attendance records are necessary for effective payroll control because these records form the basis for the calculations of the amounts to be paid to employees. They are also necessary to settle payroll disputes and, at times, to establish the validity of injury and disability claims.

During the course of the audit, we reported our timekeeping findings to LWS. On April 18, 2002, we received a written response from LWS stating that it had given a Disciplinary Action Notice to the employee who repeatedly failed to record his departure times, and had issued a memorandum to all the LWS staff reinforcing the organization's time recording policy.

Recommendation

LWS should ensure that all employees record their arrival and departure times.

LWS Response: In his response, LWS's Chief Financial Officer did not address this recommendation. However, he stated that LWS accepts the report.

DJJ Response: DJJ's Director of Audit responded that DJJ will monitor the group home to ensure that all employees record their arrival and departure times.

Leake and Watts Services, Inc.

463 Hawthorne Avenue, Yonkers NY 10705

Fax Transmission

TO: Davi DATE: 6/13/02
COMPANY: NYC Comptroller's Office FROM: MICHAEL K. MAZZOCCO
FAX: 212 669-8109 FAX: (914) 375-8902

FOLLOWING THIS COVER PAGE THERE ARE/IS 0 PAGE(S)
IF THERE ARE ANY PROBLEMS IN RECEIVING PLEASE CALL (914) 375-8717

MESSAGE:

Re: audit of DJJ
Program has W accepts the report.
Thank you.

Mic Mazzo

This message is intended only for the use of the individual or entity to which it is addressed and may contain information that is privileged, confidential and exempt from disclosure under applicable law. If the reader of this message is not the intended recipient, or the employee or agent responsible for delivering the message to the intended recipient, you are hereby notified that any dissemination, distribution or copying of this communication is strictly prohibited. If you have received this communication in error, please notify us immediately by telephone and return the original message to us at the above address via the U.S. Postal Service. Thank you.



Department of Juvenile Justice
365 Broadway • New York, NY 10013
Tel. 212.925.7779 • Fax 212.925.0062 • TDD/TTY 212.334.6873
www.nyc.gov/nyedjj

Nell Hernandez
Commissioner

June 18, 2002

Roger D. Liwer
Assistant Comptroller for Audits
The City of New York
Office of the Comptroller
Bureau of Audits
1 Centre Street, Room 1100
New York, New York 10007

**Re: Audit Report on Leake and Watts
Services, Inc.'s Contract with the
Department of Juvenile Justice
FL02-158A**

Dear Mr. Liwer:

This is our response to your draft report dated May 29, 2002 on the above referenced audit. We appreciate your efforts in conducting this audit to determine whether the contracted Group Home, Leake and Watts Services Incorporated maintained adequate internal controls over receipt and expenditures of contract funds and spent all contract funds on program-related expenses.

Regarding the only finding identified in the report, the Department of Juvenile Justice will monitor the Group Home to ensure that all employees record their arrival and departure times as recommended.

If you have any further questions, please contact me at (212) 925 7779 extension 326.

Sincerely,


Fridrey Uwoghien
Director of Audit

**CC: Nell Hernandez, Commissioner
Janice English, Deputy Commissioner**