



City of New York

OFFICE OF THE COMPTROLLER

Scott M. Stringer
COMPTROLLER



FINANCIAL AUDIT

Marjorie Landa

Deputy Comptroller for Audit

Audit Report on the Financial and
Operating Practices of the Children of
Bellevue, Inc.

FP19-100A

June 23, 2020

<http://comptroller.nyc.gov>



THE CITY OF NEW YORK
OFFICE OF THE COMPTROLLER
SCOTT M. STRINGER

June 23, 2020

To the Residents of the City of New York:

My office has audited the Children of Bellevue, Inc. (CoB) to determine whether CoB has adequate controls over and accurately reported revenues and expenses, and whether it has complied with relevant fiscal procedures, guidelines, and laws. We audit not-for-profit entities such as CoB to increase accountability and to help ensure that funds are properly safeguarded and appropriately used in the best interest of the public.

The audit found weaknesses in CoB's internal control structure. Specifically, CoB and its Board of Directors did not establish adequate written policies and procedures to provide guidance to its staff in several important areas of its operations. Although there was no evidence of fraud or misappropriation of assets, we identified significant deficiencies within its revenue collection and recording procedures.

In particular, CoB did not maintain accurate and consistent books and records for the donations reported across its multiple accounting systems. In addition, CoB's accounting practices related to donations did not include a reasonable means of identifying transactions across accounting systems and records. Further, CoB did not consistently execute written agreements with its independent contractors. Finally, our auditors were unable to verify whether CoB's revenues and expenses were accurately reported on its financial statements because the audited financial statements for Calendar Year 2018 have not been issued.

To address these issues, the audit makes five recommendations, two recommendations to CoB's Board of Directors and three recommendations to CoB. Specifically, we recommend that CoB's Board of Directors establish additional written policies and procedures that include detailed guidance to its employees on the day-to-day fiscal activities of the organization, and that it ensure that CoB employees are notified of the requirements as set forth in the policies and procedures and effectively monitor their adherence to such requirements. In addition, we recommend that the CoB ensure all revenue and expense information is accurately and consistently reported across all accounting/management systems used by the organization; utilize a unique identification number or an alternative means of identifying transactions across its accounting systems and records; and ensure that all financial and operational information reported to the Board of Directors and Health + Hospitals accurately reflects the organization's financial position.

The results of the audit have been discussed with CoB, and their comments have been considered in preparing this report. Their complete written responses are attached to this report. If you have any questions concerning this report, please e-mail my Audit Bureau at audit@comptroller.nyc.gov.

Sincerely,

A handwritten signature in black ink, appearing to read "Scott M. Stringer".

Scott M. Stringer

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THE CITY OF NEW YORK OFFICE OF THE COMPTROLLER FINANCIAL AUDIT

Audit Report on the Financial and Operating Practices of the Children of Bellevue, Inc.

FP19-100A

EXECUTIVE SUMMARY

The Children of Bellevue, Inc. (CoB) is a non-profit organization established to provide funding and develop programs that benefit children who are patients at NYC Health + Hospitals/Bellevue (H+H) (Bellevue). Per its mission, CoB is responsible for the initiation, funding, and development of various programs at Bellevue that enhance the patient care of children admitted to the hospital.

As stipulated in its by-laws, CoB's day-to-day operations are overseen by a Board of Directors. The Board of Directors is further broken down into various subcommittees which provide guidance in specific areas of CoB's operations. Current subcommittees include the Executive, Audit, Finance, Governance, Development and Marketing, Program, and Toast Committees.

For Calendar Year 2018, CoB reported a total income of \$1,230,608 and reported total expenses of \$1,406,027. Thus, CoB incurred a net loss of \$175,419 in Calendar Year 2018.

Audit Findings and Conclusions

Although CoB generally maintained adequate controls over its operations, we found several weaknesses in CoB's internal control structure. Specifically, we found that CoB did not establish adequate written policies and procedures for employees on the proper way to manage all of the day-to-day fiscal activities of the organization. In addition to the lack of organizational policies and procedures, we found that H+H did not update its Operating Procedure 10-20 (OP 10-20), a procedure established to govern the operations of H+H's auxiliaries; consequently, H+H officials stated that the OP 10-20 was outdated and no longer enforced. Thus, CoB operated without being held to any current H+H policy and oversight requirements. Consequently, we identified deficiencies within the organization's revenue collection and recording practices. We also found that CoB did not consistently execute written agreements with its independent contractors. As a result, CoB incurred a relatively significant amount of expenses without a central agreement to document essential agreed-upon terms, such as price, period, scope of work, and other critical information.

We also found that CoB did not maintain accurate and consistent books and records for its donations across its multiple accounting systems. Specifically, we found discrepancies in the recorded donation information in its DonorPerfect and QuickBooks accounting systems. In

addition to the inconsistently reported information, CoB's accounting practices did not include a practical means of identifying transactions across its multiple accounting systems.

Audit Recommendations

CoB's Board of Directors should:

1. Establish additional written policies and procedures that include detailed guidance to its employees on the day-to-day fiscal activities of the organization. Specifically, written procedures should be established for the following:
 - a. Segregating duties and/or implementing alternative controls over its revenue collection and reporting processes and all other important segments of its operations;
 - b. Implementing verification procedures to ensure all donations are properly accounted for;
 - c. Entering into written agreements for all independent contractors and vendors providing service to the organization; and
 - d. Reviewing all new and existing agreements with independent contractors on an annual basis; and
2. Ensure that CoB employees are notified of the requirements as set forth in the policies and procedures and effectively monitor their adherence to such requirements.

CoB should:

3. Ensure all revenue and expense information is accurately and consistently reported across all accounting/management systems used by the organization;
4. Utilize a unique identification number or an alternative means of identifying transactions across its accounting systems and records; and
5. Ensure that all financial and operational information reported to the Board of Directors and H+H accurately reflects the organization's financial position.

Agency Response

Although CoB addressed each of the audit's recommendations in its response, it did not clearly state whether it agreed or disagreed. Overall, CoB asserts that it has established and implemented adequate internal controls. In its response, CoB states that it "has established strong controls that ensure the accuracy and integrity of donation processing and will formalize these verification procedures with written policies and/or procedures to document the existing practice." CoB also states that "[t]here are sufficient compensating controls in place to ensure the integrity and accuracy of revenue collection and reporting processes given the size of the organization and the practicality of segregating duties further. We will formalize these compensating controls with written policies and/or procedures to document the existing practice."

AUDIT REPORT

Background

CoB is a non-profit organization that was founded in 1949 to provide funding and develop programs that benefit the children at Bellevue. Per its mission, CoB initiates, funds, and develops programs at Bellevue that improve the health and well-being of children at the hospital. Currently, CoB's program initiatives include child protection and development, child life and developmental services, child and adolescent psychiatry, literacy and school readiness, and its Video Interaction Project.

CoB is one of H+H's 22 Auxiliaries and, as such, falls under H+H's oversight responsibilities.¹ Specifically, H+H's by-laws provide for the regulation of Auxiliaries and require that their purpose(s) and function(s) be fully established. Additionally, H+H's internal policies and procedures include Operating Procedure No. 10-20 Auxiliaries (OP 10-20), which establishes rules that Auxiliaries should follow in their goal to "enhance the facility and patient care."

CoB is also overseen by a Board of Directors, which provides guidance and day-to-day management as stipulated in its by-laws. Much of its oversight and management is provided through the Board of Directors' subcommittees, which assist in specific areas of CoB's operations. Current subcommittees include the Executive, Audit, Finance, Governance, Development and Marketing, Program, and Toast Committees.

Donation solicitations and fundraising activities, such as its annual Toast to the Children event, generate the majority of CoB's reported revenue. Upon receipt of donations, CoB records all donations in its DonorPerfect system and in QuickBooks. In recording the donations, both systems should also reflect any restrictions imposed by the donor.² Additionally, CoB may enter into agreements with the City that may provide supplemental income, which is solely recorded in QuickBooks. In 2018, CoB did not receive income from the City.

For Calendar Year 2018, CoB reported a total income of \$1,230,608 and reported total expenses of \$1,406,027. Thus, CoB incurred a net loss of \$175,419 in Calendar Year 2018.

Objectives

The objectives of this audit were to determine whether CoB:

- had adequate controls over and accurately reported revenues and expenses; and
- complied with relevant fiscal procedures, guidelines, and laws.

Scope and Methodology Statement

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our

¹ Auxiliary organizations operate on behalf of H+H and provide various fundraising, program development, and other services to enhance patient care at H+H healthcare facilities.

² Donations may be restricted for a specific program/purpose or a specific time to be used in the future.

audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on the audit objectives. This audit was conducted in accordance with the audit responsibilities of the City Comptroller as set forth in Chapter 5, §93, of the New York City Charter.

The scope of this audit was Calendar Year 2018. Please refer to the Detailed Scope and Methodology section at the end of this report for the specific audit procedures and detailed tests that were conducted.

Discussion of Audit Results with CoB

The matters covered in this report were discussed with CoB officials during and at the conclusion of this audit. A preliminary draft report was sent to CoB on April 27, 2020 and was discussed at an exit conference on May 8, 2020. On May 19, 2020, we submitted a draft report to CoB with a request for written comments. We received a written response from CoB on June 3, 2020 which is included as an addendum to this report.

Although CoB addressed each of the audit's recommendations in its response, it did not clearly state whether it agreed or disagreed. Overall, CoB asserts that adequate internal control practices have already been established and implemented. In its response, CoB states that it "has established strong controls that ensure the accuracy and integrity of donation processing and will formalize these verification procedures with written policies and/or procedures to document the existing practice." CoB also states that "[t]here are sufficient compensating controls in place to ensure the integrity and accuracy of revenue collection and reporting processes given the size of the organization and the practicality of segregating duties further. We will formalize these compensating controls with written policies and/or procedures to document the existing practice."

Further, CoB states that it is "a small organization . . . and has a robust Board of Directors." However, CoB's response demonstrates that it does not fully understand the risks associated with the lack of segregation of duties or alternative controls particularly for a small organization. Our audit found that all custodial and record keeping of donations are assigned to one employee and that all the review procedures referenced by CoB occur subsequent to the receipt of donations and data entry procedures. To ensure that the risks associated with such circumstances are properly mitigated, CoB should revisit its internal control structure and explore additional alternative controls to address the control weaknesses identified in this report.

CoB further states in its response that the audit report was not adjusted to reflect documentation it provided to the auditors. However, the additional documentation provided by CoB was carefully considered and we determined that it did not contain necessary detailed information to support the purported adjustments and corrections.

After carefully reviewing CoB's response, we find no basis to alter any of the report's findings or conclusions.

FINDINGS

The audit found weaknesses in CoB's internal control structure. Specifically, CoB and its Board of Directors did not establish adequate written policies and procedures to provide guidance to its staff in several important areas of its operations. Although we did not find evidence of fraud or misappropriation of assets, we identified significant deficiencies within its revenue collection and recording procedures. In addition to CoB's lack of adequate internal policies and procedures, we found that H+H did not enforce or update its Operating Procedure 10-20 (OP 10-20), a 2010 procedure governing the operations of Auxiliaries of H+H.

We also found that CoB did not maintain accurate and consistent books and records for the donations reported across its multiple accounting systems. Moreover, CoB's accounting practices related to donations did not include a reasonable means of identifying transactions across accounting systems and records. In addition, CoB did not consistently execute written agreements with its independent contractors. Furthermore, we were unable to verify whether CoB's revenues and expenses were accurately reported on its financial statements because the audited financial statements for Calendar Year 2018 have not been issued as of the date of this report.³

Inadequate Written Policies and Procedures

CoB and its Board of Directors did not maintain adequate written internal policies and procedures to govern its operations, ensure accurate reporting of revenues and expenditures, and establish proper controls. According to the Office of the New York State Attorney General's (NYSAG) *Internal Controls and Financial Accountability for Not-For-Profit Boards*, "Every organization should have procedures to monitor and keep records of assets received, held and expended. These financial controls should be described in a written document."

Our review of CoB's records found that the organization and its Board of Directors did not establish sufficient controls to govern its operations. Specifically, CoB has not established adequate written policies and procedures to provide guidance to CoB employees on the proper way to manage all of the day-to-day fiscal activities of the organization. Upon questioning the lack of written policies and procedures available, CoB provided some written policies applicable to areas such as online purchases, bank deposit reconciliation, credit card purchases, and invoice payment. However, we found that these policies were insufficient to manage several critical areas of CoB's operations. Specifically, there was no written guidance pertaining to the receipt of donations, review of data entries, and use of independent contractors.

In addition to CoB's lack of adequate internal policies and procedures, we note that H+H did not update its policies to enable it to appropriately oversee its Auxiliaries. According to H+H officials, OP 10-20, issued in November 2010, was outdated and thus no longer enforced by H+H. As a result, during our audit scope period, H+H was not enforcing any oversight policy applicable to the Auxiliaries.

A new version was posted to H+H's intranet in February 2019; however, the new version was still in draft and was not applicable to our 2018 audit scope period. Further, a comparison of both versions of the operating procedures shows that the newly drafted version has even fewer reporting requirements for the Auxiliaries than the previous one. For instance, the applicable 2010 OP 10-20 required that, at a minimum, CoB prepare and submit a quarterly financial statement of

³ On March 6, 2020, H+H officials stated that the contracted accounting firm only completed audits for 5 of the 22 Auxiliaries. Due to the firm's poor service, H+H decided to engage another CPA firm to conduct the audits of the Calendar Year 2018 financial statements.

income and expenditures to Bellevue's Executive Director or Chief Financial Officer, which the drafted 2019 version does not require. Nevertheless, CoB did not comply with the applicable OP 10-20 and did not submit any quarterly financial statements of income and expenditures to the appropriate Bellevue officials in 2018.

Due to the lack of detailed written policies, internal and external, we determined that CoB operated without the proper controls and oversight. Upon further review of CoB's operations, we identified significant deficiencies as detailed in the following sections.

Lack of Segregation of Duties within CoB's Revenue Collection Processes

CoB and its Board of Directors did not ensure that proper segregation of duties was in place or develop alternative controls over CoB's receipt of donations. According to the Committee of Sponsoring Organizations of the Treadway Commission's (COSO) *Internal Control – Integrated Framework*, "segregation of duties generally entails dividing the responsibility for recording, authorizing, and approving transactions, and handling the related asset." The framework further recognizes that it may be difficult for smaller companies to achieve ideal segregation of duties; however, in these situations, management should institute alternative control activities.

However, CoB and its Board of Directors did not establish any revenue collection procedures, written or in practice, which reflect sufficient segregation of duties or alternative controls. CoB's office operates primarily with two full-time employees and independent contractors. Its two full-time employees include the Director of Administration and the Director of Development. As a practice, CoB's Director of Administration handles the majority of the financial responsibilities regarding the organization's revenue. Specifically, the Director of Administration is responsible for receiving donations, maintaining cash, making deposits, and recording the donations in DonorPerfect.⁴ With all of the custodial and recordkeeping responsibilities assigned to one employee, and without alternative controls in place, CoB's process for receiving and recording donations reflects a lack of segregation of duties. Moreover, we found that CoB's existing practices related to donations only include review processes such as the issuance of receipt letters, which are conducted subsequent to the receipt of donations and data entry procedures.

While CoB is a small organization and ideal segregation of duties may not be practical, alternative procedures should be developed to help ensure the accuracy and completeness of the information entered into CoB's accounting system. Consequently, CoB received and processed approximately 1,593 donations and revenue transactions, totaling \$1,197,268, without proper segregation of duties and review procedures in place. Although our audit did not find any evidence of such, CoB and its Board of Directors did not appropriately mitigate the risks of errors, misappropriation, and fraudulent activities as related to its donation processing.

Lack of Written Agreements for CoB's Independent Contractors

CoB did not consistently execute written agreements with its independent contractors. Our review found that five of the nine sampled expenses that were paid related to independent contractors operated without written agreements. Upon questioning the lack of written contracts, CoB officials stated that they did not always enter into written contracts and have established an understanding

⁴ DonorPerfect is a Constituent Relationship Management software utilized by CoB to record donations obtained through its fundraising activities.

of price and activity with the contractors. However, CoB was unable to furnish adequate documentation to support this assertion.

CoB and H+H further argued that they do not want to incur additional costs related to instituting written contracts, such as reviews by the legal department. However, the total amount paid to independent contractors without sufficient documentation for Calendar Year 2018 was \$359,309. Moreover, we found that the total annual expenses incurred by CoB for each independent contractor was significant and therefore warranted a written contract. During Calendar Year 2018, the expenses associated with the sampled independent contractors that operated without a written agreement ranged from \$11,920 to \$251,895.⁵ Given the substantial amount of the expenses incurred annually by CoB for each independent contractor's services, the essential details of their services, such as pricing, term period, and deliverables, should have been documented in a written agreement.

COSO's internal control framework provides that an internal control is defined as "a process, effected by an entity's board of directors, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives relating to operations, reporting, and compliance." However, CoB's failure to implement control procedures requiring written agreements to be executed with its independent contractors does not achieve the underlying purpose of an internal control as stated above.

Without a written agreement, CoB cannot measure an independent contractor's performance against a documented standard or determine whether the services were provided in a satisfactory manner and compliant with the agreed-upon terms. Furthermore, CoB's ability to enforce agreed-upon terms, resolve payment issues and questions, and defend against a contract with an independent contractor may be impeded by the lack of documented contractual information.

Inconsistent Revenue Information Recorded in CoB's Accounting Systems

CoB did not maintain accurate and consistent books and records. Per our review of CoB's operations, CoB officials stated that the Director of Administration initially records all donation information in the DonorPerfect system in a detailed manner to reflect the classifications of the donation, such as restricted vs. unrestricted, corporation vs. individuals, etc. The Bookkeeper, one of CoB's independent contractors, then transfers the donation information on a monthly basis into CoB's QuickBooks accounting system. Thus, the DonorPerfect system and QuickBooks should generally reflect the same donation information within a specific period of time. However, our comparison of the DonorPerfect Financial Donations report and the QuickBooks general ledger identified substantial discrepancies between the amounts reported for each donation class/category as summarized in Table I below.

⁵ The \$251,895 cited above is related to CoB's payment to Bellevue. Some of the program expenses paid by CoB concerned services provided by Bellevue staff. CoB officials stated that CoB reimbursed Bellevue hospital for the related payroll and listed the expense under the General Ledger account for independent contractors. Further, each of the reimbursements made to Bellevue was for multiple employees and the employees varied with each reimbursement.

Table I

Comparison of Donations Reported
in DonorPerfect and QuickBooks
during Calendar Year 2018

	Per Donor Perfect	Per General Ledger	Variance
Gift Shop *	\$ 22,451.95	\$ 22,451.95	\$ -
Unrestricted Individual	\$ 317,945.17	\$ 428,904.13	\$ (110,958.96)
Unrestricted Foundation	\$ 85,317.36	\$ 27,481.63	\$ 57,835.73
Unrestricted Corporation	\$ 133,855.01	\$ 91,331.74	\$ 42,523.27
Total Unrestricted	\$ 559,569.49	\$ 570,169.45	\$ (10,599.96)
Billy Books *	\$ 9,042.75	\$ 9,042.75	\$ -
Restricted Individual	\$ 45,528.81	\$ 47,496.88	\$ (1,968.07)
Restricted Foundation	\$ 560,559.24	\$ 479,020.24	\$ 81,539.00
Restricted Corporation	\$ 11,700.00	\$ 83,039.00	\$ (71,339.00)
Total Restricted	\$ 626,830.80	\$ 618,598.87	\$ 8,231.93
Total	\$ 1,186,400.29	\$ 1,188,768.32	\$ (2,368.03)

* **Note 1:** In DonorPerfect, the revenue from the Gift Shop and Billy Books sales was originally embedded within the various restricted and unrestricted accounts. Such amounts have been extracted from those accounts to allow comparison to the general ledger.

As detailed in Table I, there are significant discrepancies between the various classes of donations. Pursuant to our review, the total restricted donations set forth is understated in the general ledger by \$8,232. In turn, the total unrestricted balance in the general ledger is overstated by \$10,600. When asked about these discrepancies, the Bookkeeper stated that the differences were due to problems with CoB's implementation of the desktop version of QuickBooks and the transference of the information from DonorPerfect to QuickBooks. However, no adjustments or corrections were made after the transfer of the entries into QuickBooks to ensure the records accurately reflected CoB's donations.

According to NYSAG's *Internal Controls and Financial Accountability for Not-For-Profit Boards*, the organization's procedures for monitoring assets should include controls for "ensuring that grants and contributions received are properly recorded, accountings required as a condition of any grant are completed, and restrictions on the use of funds, such as contributions given for a restricted purpose or prohibitions on the use of the principal of an endowment, are obeyed." With regard to the transfer of data, the publication further provides that the organization should include procedures for "preserving electronic records, protecting private data, [and] ensuring data compatibility when systems change." However, CoB and its Board of Directors did not ensure such procedures were in place to protect the integrity of its financial data and the accurate reporting/classifications of its donations. Consequently, the organization's two primary accounting systems reflect conflicting financial information and material discrepancies. Furthermore, we were

unable to determine whether CoB reported on the correct revenue information because the Calendar Year 2018 audited financial statements have not been issued.

CoB Response: “In their findings, the City Comptroller’s office contends that ‘no adjustments or corrections were made after the transfer of the entries into QuickBooks to ensure the records accurately reflected CoB’s donations.’ Children of Bellevue’s Bookkeeper had corrected the 2018 donations referenced and had resolved this issue for 2019 and going forward with the new software. After the preliminary call to review the results of the audit, a spreadsheet titled ‘Support and Gifts Comparison’ was provided to the auditors on April 3, 2020 concerning the gifts in DonorPerfect and QuickBooks to provide proof of the correction. With the issuance of the Preliminary Draft Report, Children of Bellevue noted that this correction had not been included in the report. In the subsequent exit conference, Children of Bellevue again pointed out that these donations had indeed been corrected, yet the auditor’s report still incorrectly contends that Children of Bellevue has not done so.”

Auditor Comment: CoB’s assertion that proof of the correction was provided to the auditors is incorrect. The corrections CoB claimed were made occurred more than a year after the close of Calendar Year 2018 and after the auditors repeated communications with CoB about the identified discrepancies. (The audit team discussed this issue with CoB officials on October 22, 2019 and March 12, 2020.) However, the document provided to the audit team on April 3, 2020 did not substantiate consistent totals between DonorPerfect and QuickBooks since the document only referenced a summarized trial balance without detailed transactions. CoB was informed at the exit conference that the documentation was inadequate and that it failed to properly support CoB’s assertion that the variances had been remedied.

Inadequate Accounting Procedures

CoB’s data entry and accounting procedures did not incorporate any practical means of tracing transactions across its accounting systems. Specifically, transactions as recorded in DonorPerfect and QuickBooks did not include any unique identification numbers (e.g., reference numbers) or any alternative means to be traced across accounting systems and/or to source documents. As stated in the previous sections, NYSAG’s *Internal Controls and Financial Accountability for Not-For-Profit Boards* states, “Every organization should have procedures to monitor and keep records of assets received, held and expended.”

However, CoB’s current practice of recording transactions without a unique identification number or alternative means of tracing the transactions impedes CoB’s and its Board of Directors’ ability to monitor such transactions and resolve discrepancies across the accounting systems and documentation. Consequently, we were unable to effectively trace transactions from DonorPerfect to QuickBooks and further to the source documents unless such transactions had exclusive dates and dollar amounts.

RECOMMENDATIONS

CoB's Board of Directors should:

1. Establish additional written policies and procedures that include detailed guidance to its employees on the day-to-day fiscal activities of the organization. Specifically, written procedures should be established for the following:

- a. Segregating duties and/or implementing alternative controls over its revenue collection and reporting processes and all other important segments of its operations;

CoB Response: "There are sufficient compensating controls in place to ensure the integrity and accuracy of revenue collection and reporting processes given the size of the organization and the practicality of segregating duties further. We will formalize these compensating controls with written policies and/or procedures to document the existing practice."

Auditor Comment: As stated in the report, we understand that complete segregation of duties may not be practical for a small organization. Accordingly, we recommend that alternative procedures could be developed to help ensure the accuracy and completeness of the information entered into CoB's accounting system. However, the compensating controls referenced by CoB in its response are inadequate as they consist of actions that take place after the custodial and recordkeeping tasks rendered by a single person. As such, they do not address the internal control issues identified by the audit. Accordingly, we urge CoB to reconsider its position and implement this recommendation.

- b. Implementing verification procedures to ensure all donations are properly accounted for;

CoB Response: "Children of Bellevue has established strong controls that ensure the accuracy and integrity of donation processing and will formalize these verification procedures with written policies and/or procedures to document the existing practice."

Auditor Comment: As discussed in the report, the review procedures implemented by CoB occur after a single employee receives and deposits donations and records the corresponding information in DonorPerfect. However, as noted, the review procedures referenced by CoB are reliant on the information already entered into the system. Accordingly, we urge CoB to reconsider the adequacy of its procedures and implement this recommendation.

- c. Entering into written agreements for all independent contractors and vendors providing service to the organization; and

CoB Response: "Children of Bellevue's Board will establish a written policy and procedure that dictates when to receive a purchase order or invoice and when to enter into a written contract with an independent contractor or vendor based on the dollar amount of the expense and the duration of services provided."

Auditor Comment: We are pleased that CoB will establish a written policy that will specify the circumstances where a purchase order should be issued and those where a written agreement should be entered into with its independent contractors. As previously stated, appropriate use of purchase orders and contracts is necessary to ensure that essential terms of a transaction are clearly agreed to prior to the rendering of services.

- d. Reviewing all new and existing agreements with independent contractors on an annual basis; and

CoB Response: “Written agreements with independent contractors will be reviewed by the Governance Committee of the Board of Directors before being executed. Ongoing agreements with independent contractors will be reviewed by the Governance Committee at the end of the service period or every three years, whichever is earlier.”

Auditor Comment: We are pleased that CoB is implementing procedures that will allow for the periodic review of new and existing contracts with independent contractors. We urge CoB to formalize the Board of Director’s review of independent contractor services in its written policies and procedures.

2. Ensure that CoB employees are notified of the requirements as set forth in the policies and procedures and effectively monitor their adherence to such requirements.

CoB Response: “All written policies and procedures, once finalized, are circulated to all Board Members and staff. Other important expectations of staff are outlined in Children of Bellevue’s Human Resources manual . . . The Board of Directors discusses staff performance at the December regular Board meeting, and the Board Chair and Vice-Chair perform annual, formal reviews for each staff member.”

Auditor Comment: As stated in recommendation #1, we recommend that **additional** written policies and procedures are established to guide staff on day-to-day fiscal operations that our office observed were not present during our audit. We are pleased to hear that all employees will be notified of the policy requirements and subsequently monitored, especially of any new policy requirements as set forth per the recommendations in this report.

CoB should:

3. Ensure all revenue and expense information is accurately and consistently reported across all accounting/management systems used by the organization;

CoB Response: “Each individual expense and donation is reconciled with the monthly credit card and checking account statements by the Director of Administration. This information is provided to the Bookkeeper monthly to perform the formal reconciliations of these accounts and for entry into QuickBooks. On a quarterly basis, the Bookkeeper and the Directors of Development and Administration ensure the revenue reported by both systems reconciles, and the final reconciliation report is provided to the designated Board Member on the Finance Committee.”

Auditor Comment: As discussed above, our comparison of the various systems found substantial discrepancies between the amounts reported for each donation

class/category. Further, we found that CoB was unable to adequately support that adjustments or corrections were made to ensure the accuracy of the records. Therefore, we urge CoB to adopt our recommendation that it ensure that all revenue and expense information is accurately and consistently reported across all the systems used by the organization.

4. Utilize a unique identification number or an alternative means of identifying transactions across its accounting systems and records; and

CoB Response: “With the implementation of QuickBooks Online in October 2019, we already capture a unique gift identification number and donor identification number for every entry in both systems.”

5. Ensure that all financial and operational information reported to the Board of Directors and H+H accurately reflects the organization’s financial position.

CoB Response: “As detailed above in our responses to recommendations 3 and 4, Children of Bellevue currently verifies that all financial and operational information reported to both the Board of Directors and NYC Health + Hospitals/ Bellevue is accurate.”

DETAILED SCOPE AND METHODOLOGY

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. This audit was conducted in accordance with the audit responsibilities of the City Comptroller as set forth in Chapter 5, §93, of the New York City Charter.

The scope of this audit was Calendar Year 2018. To assess CoB's financial operations, we reviewed the latest available audited financial statements for Calendar Year 2017. To better understand the rules and regulations applicable to CoB, we reviewed H+H's Operating Procedure 10-20, CoB's By-Laws, and the Official CoB Handbook, and we abstracted the documents as necessary. Upon discussing the lack of written policies and procedures toward the end of the fieldwork stage, CoB provided some written procedures for consideration. We also reviewed the Office of the NYSAG's *Internal Control and Financial Accountability for Not-for-Profit Boards* to determine the requirements specific to not-for-profits. We further reviewed COSO's *Internal Control – Integrated Framework* to assist within our assessment of internal controls.

We conducted walk-throughs of the overall operations, recording and reporting processes, and bookkeeping procedures. To assess its oversight of CoB's operations, we conducted a walk-through of the Board of Directors' roles and responsibilities.

To gain a better understanding and identify potential internal control weaknesses of CoB's operations, we flowcharted the major areas of its operations.

To facilitate our assessment of CoB's financial record, we reformatted the general ledger. We then summarized the general ledger by account and periods to note any unusual fluctuations and trends. To determine whether the donation information was properly recorded and reported across the various systems utilized by CoB, we cross-checked the donation amounts, sources, classification, and other major fields between the DonorPerfect and QuickBooks accounting systems. We then reconciled the general ledger to CoB's draft financial statements to ensure the financial information was complete and accurate.

To assess the completeness and accuracy (data reliability) of CoB's electronically processed data, we randomly sampled 50 hardcopy files to be traced back to the electronic files. From these hardcopy documents, we cross-checked the amounts, sources, dates, and other critical fields against the related fields in the electronic data. For the selected revenue items, the cross-check included both the DonorPerfect reports and QuickBooks' general ledger.

We also selected another 50 line items from the general ledger and traced the information back to its supporting documentation to verify the accuracy of the data entry. To further ascertain the validity of the supporting documentation, we observed the data extraction from the online donation platforms and compared it against the source documents.

Per our review of CoB's expenditures, we judgmentally sampled general ledger accounts based on risk and materiality; such accounts included consultants (independent contractors), supplies, and travel expenses. For the independent contractors specifically, we identified all the vendors with listed name in the general ledger and then judgmentally sampled the highest expense from each named vendor for further review. For the consultant expenses which did not provide a

specific name or vendor in the general ledger, we selected 10 percent of those line item expenses for further review. For the remaining accounts, we selected the top 10 Supply expenses and 20 percent of the Travel and Training expenses. The sampled expenses from these amounts totaled \$153,439.06—11 percent of CoB's total expenditures. From these accounts, we randomly sampled transactions and determined whether such expenses were accurately reported, approved by the appropriate personnel, and adequately supported by documentation.

If it was determined that the consultant operated without a contract or sufficient pre-approval documentation, we summarized all the Calendar Year 2018 expenses for such vendors to determine the amount of expenses that were incurred without proper documentation.

To determine whether the Board of Directors complied with the Not-for-Profit Corporate Law, we requested all conflict of interest disclosure forms for Calendar Year 2018. We then cross-checked these forms against the minutes and other documentation to determine whether all Board members adhered to the requirement and submitted their form in a timely manner.

The results of the above tests, though not projectable to their respective populations, provide a reasonable basis to assess and to support our findings and conclusions about CoB's financial and operating practices.



Children of Bellevue

Because children need more than medicine to thrive

Find us at 462 First Avenue, ME-15, New York, NY 10016.

Contact us at 212-562-4130 option 5 or info@childrenofbellevue.org.

Follow us on social media at @CoBellevue and online at childrenofbellevue.org.

June 3, 2020

By Electronic Mail

Marjorie Landa
Deputy Comptroller for Audit
Office of the Comptroller
The City of New York
One Centre Street Room 1100
New York, NY 10007

**Re: Audit Report on the Financial and Operating Practices of the
Children of Bellevue, Inc. FP19-100A**

Dear Ms. Landa,

Children of Bellevue, Inc. ("CoB") respectfully submits its response to the financial audit conducted by the Office of the Comptroller of the City of New York for fiscal year 2018. On the following pages, CoB has responded to each recommendation in the report, stating whether or not we agree with the finding and providing a response as to how CoB plans to move forward.

Children of Bellevue would like to thank the Comptroller's staff who were assigned to CoB for their professionalism and courtesy extended during the audit. The individuals were sensitive to and accommodated the workload necessary to support the Comptroller's audit as a two-person staff.

Sincerely,

Nicole Shearman
Chairperson
Children of Bellevue, Inc.

Attachments

cc: Mary-Lee Kvietkus, Director of Administration, Children of Bellevue, Inc.
Sara Saastamoinen, Director of Development, Children of Bellevue, Inc.
Mitchell Katz, MD, President and Chief Executive Officer, NYC Health + Hospitals
Christopher Telano, Chief Internal Auditor and Assistant Vice President, NYC Health + Hospitals

Response to Recommendation 1a

Children of Bellevue, Inc. was founded more than 70 years ago to support the oldest public hospital in America, New York City Health + Hospitals/Bellevue, in providing programs and services that help children recuperate from illnesses and injuries and stay healthy throughout their childhood and into their adult life. As an auxiliary to Bellevue, Children of Bellevue's mission is to initiate, fund, and develop programs that improve the health and well-being of children at the hospital. To provide the greatest possible amount of support for children and families who come to Bellevue for their health care, Children of Bellevue intentionally operates with a small office staff, so the majority of our fundraising can go directly to supporting patients.

Children of Bellevue is a small organization with two full-time staff and has a robust Board of Directors that acts in a monitoring capacity to ensure that good internal controls are in place. We have many existing written policies and procedures in place for our operations, including but not limited to the following: 5% administrative cost policy, purchasing process, bank deposit reconciliation process, company-issued credit card policy, credit card reconciliation process, credit card usage policy for programs, and invoice paying procedure. There are sufficient compensating controls in place to ensure the integrity and accuracy of revenue collection and reporting processes given the size of the organization and the practicality of segregating duties further. We will formalize these compensating controls with written policies and/or procedures to document the existing practice.

Children of Bellevue records financial information in two systems: DonorPerfect and QuickBooks. Donations are first entered into DonorPerfect, a fundraising customer relationship management (CRM) system, which we use to provide donors with appropriate tax reporting information for their contributions and to maintain donor lists. The Director of Administration completes the initial documentation of donations received in DonorPerfect, which are reviewed by the Director of Development every day that donations come in before tax-deduction letters are issued. The Director of Development additionally reviews the entire month's donations for a second time before documentation is sent by the Director of Administration to the Bookkeeper.

Donations are also recorded in QuickBooks, an accounting system, and we use the information recorded in this system for Children of Bellevue's financial reporting, including our financial statements. The Bookkeeper reviews the documentation received compared to the actual account transactions on the statements, reviews the relevant entries in QuickBooks, and reconciles the bank accounts monthly. On a quarterly basis, the Bookkeeper runs a comparison report to review the entries in DonorPerfect and QuickBooks and reports any discrepancies to the Directors of Administration and Development. The Director of Administration and Director of Development then research and correct the entries in DonorPerfect or instruct the Bookkeeper to correct the entries in QuickBooks. The final comparison report that reconciles between the two systems is then provided to the designated Board Member on the Finance Committee.

Response to Recommendation 1b

Children of Bellevue has established strong controls that ensure the accuracy and integrity of donation processing and will formalize these verification procedures with written policies and/or procedures to document the existing practice. On a daily basis, the Director of Development reviews the donations entered into DonorPerfect and can review the physical documentation for any entry upon request. The Director of Development indicates any necessary changes to the Director of Administration and then issues mailed or emailed acknowledgment and tax-deduction letters for each donation.

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Checks received are endorsed by an official bank stamp, and copies of the checks are attached to the bank deposit slip and subsequent checking account reconciliation forms which are provided to the Bookkeeper for review, reconciliation, and entry into QuickBooks.

The majority (99.8% of total 2018 donations, by dollar value) of CoB's donations received are not physical cash, and therefore, the risk of misappropriation is low. Cash donations received at small fundraising events are counted by three individuals and placed in a sealed, signed envelope with the total amount and count of each denomination listed. The sealed envelope is brought to Children of Bellevue's office the following business day, and the cash is counted again by the Directors of Development and Administration. The donation is then entered into DonorPerfect, and the cash is taken the same day to the bank.

Response to Recommendation 1c

Children of Bellevue's Board will establish a written policy and procedure that dictates when to receive a purchase order or invoice and when to enter into a written contract with an independent contractor or vendor based on the dollar amount of the expense and the duration of services provided. Children of Bellevue already has existing contracts with some individuals who provide services, for example, with an event planning company and a child abuse pediatrician. The largest contracted work referenced by the City Comptroller's office was with New York City Health + Hospitals/Bellevue, and it constituted 70 percent of the total expense. Children of Bellevue believes that a contract with each of these individuals was not necessary because they were Bellevue employees who were not managed or overseen by Children of Bellevue but rather by their department heads at the hospital. Children of Bellevue helped the hospital fund these individuals' salaries and wages because they provide services for children and families that as a public hospital, Bellevue would otherwise be unable to afford.

The written policy and procedure will be ratified by the Board of Directors at the September 2020 regular meeting. The written policy and procedure for independent contractors and vendors will be reviewed by the Governance Committee of the Board of Directors every three years. Agreements entered into with independent contractors and vendors will include contractor information, agreement term period, pricing agreed to, frequency and method of payment, description of services to be rendered, deliverables to be produced, performance expectations, and frequency of contractor performance and agreement review. Purchase orders, invoices, and written agreements are currently and will continue to be maintained by the Director of Administration. Any new purchase orders and invoices are currently and will continue to be reviewed weekly by the designated Board Member on the Finance Committee.

Response to Recommendation 1d

Written agreements with independent contractors will be reviewed by the Governance Committee of the Board of Directors before being executed. Ongoing agreements with independent contractors will be reviewed by the Governance Committee at the end of the service period or every three years, whichever is earlier. The Governance Committee will undertake to review all existing agreements with independent contractors prior to October 2020.

Response to Recommendation 2

All written policies and procedures, once finalized, are circulated to all Board Members and staff. Other important expectations of staff are outlined in Children of Bellevue's Human Resources manual. Furthermore, each Children of Bellevue staff member has at least weekly conversations with the Board Chair. Staff are consistently in communication with the Board Chair, Vice-Chair, and relevant Board Members and Committee

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Chairs. The staff have quarterly meetings with the Board Chair and Vice-Chair to review developments, organizational changes, upcoming work, and more. The Board of Directors discusses staff performance at the December regular Board meeting, and the Board Chair and Vice-Chair perform annual, formal reviews for each staff member.

Response to Recommendation 3

Expense information is only recorded in QuickBooks, while revenue is reported in both QuickBooks and DonorPerfect. Each individual expense and donation is reconciled with the monthly credit card and checking account statements by the Director of Administration. This information is provided to the Bookkeeper monthly to perform the formal reconciliations of these accounts and for entry into QuickBooks. On a quarterly basis, the Bookkeeper and Directors of Development and Administration ensure the revenue reported by both systems reconciles, and the final reconciliation report is provided to the designated Board Member on the Finance Committee.

In their findings, the City Comptroller's office contends that "no adjustments or corrections were made after the transfer of the entries into QuickBooks to ensure the records accurately reflected CoB's donations." Children of Bellevue's Bookkeeper had corrected the 2018 donations referenced and had resolved this issue for 2019 and going forward with the new software. After the preliminary call to review the results of the audit, a spreadsheet titled 'Support and Gifts Comparison' was provided to the auditors on April 3, 2020 concerning the gifts in DonorPerfect and QuickBooks to provide proof of the correction. With the issuance of the Preliminary Draft Report, Children of Bellevue noted that this correction had not been included in the report. In the subsequent exit conference, Children of Bellevue again pointed out that these donations had indeed been corrected, yet the auditor's report still incorrectly contends that Children of Bellevue has not done so.

Response to Recommendation 4

With the implementation of QuickBooks Online in October 2019, we already capture a unique gift identification number and donor identification number for every entry in both systems. The unique codes are created by the DonorPerfect system and migrate to the QuickBooks accounting software's corresponding journal entry. Since November 2019, all donations recorded in DonorPerfect and QuickBooks include both unique identification numbers. Going forward from the week of May 25, 2020, the physical back-up kept for all donations includes both unique identification numbers. On a quarterly basis, the Bookkeeper runs a comparison report and reports any discrepancies to the Directors of Administration and Development. After research and correction in the relevant system, the Bookkeeper, Directors of Administration and Development, and the designated Board Member on the Finance Committee reviews the final quarterly reconciliation report to verify that the transactions are consistently recorded across both systems.

Response to Recommendation 5

As detailed above in our responses to recommendations 3 and 4, Children of Bellevue currently verifies that all financial and operational information reported to both the Board of Directors and NYC Health + Hospitals/ Bellevue is accurate. The Director of Development reviews donations daily and then again monthly and quarterly. The Director of Administration reconciles income and expenses weekly and then monthly. The Bookkeeper reconciles income and expenses monthly and reconciles the two systems quarterly with support from the Directors of Administration and Development.

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Before the end of each fiscal year, the following year's budget with year-to-date actual financial information for income and expenses and projected income and expenses for the following year is prepared by the Directors of Administration and Development. It is then reviewed by the Finance Committee, and reviewed again by the Board of Directors and then approved by a formal majority vote. The organization's budget and financial information are reviewed at subsequent regular meetings of the Board, where any major changes or revisions needed are discussed and voted on by the Board of Directors. In December 2019, the Chair, Vice Chair, and Director of Development met with William Hicks, Chief Executive Officer of NYC Health + Hospitals/Bellevue to review a draft of Children of Bellevue's proposed annual budget for fiscal year 2020. Then after the budget was formally approved by the Board, the Chairperson of the Board of Directors provided a copy of the final budget to Mr. Hicks.