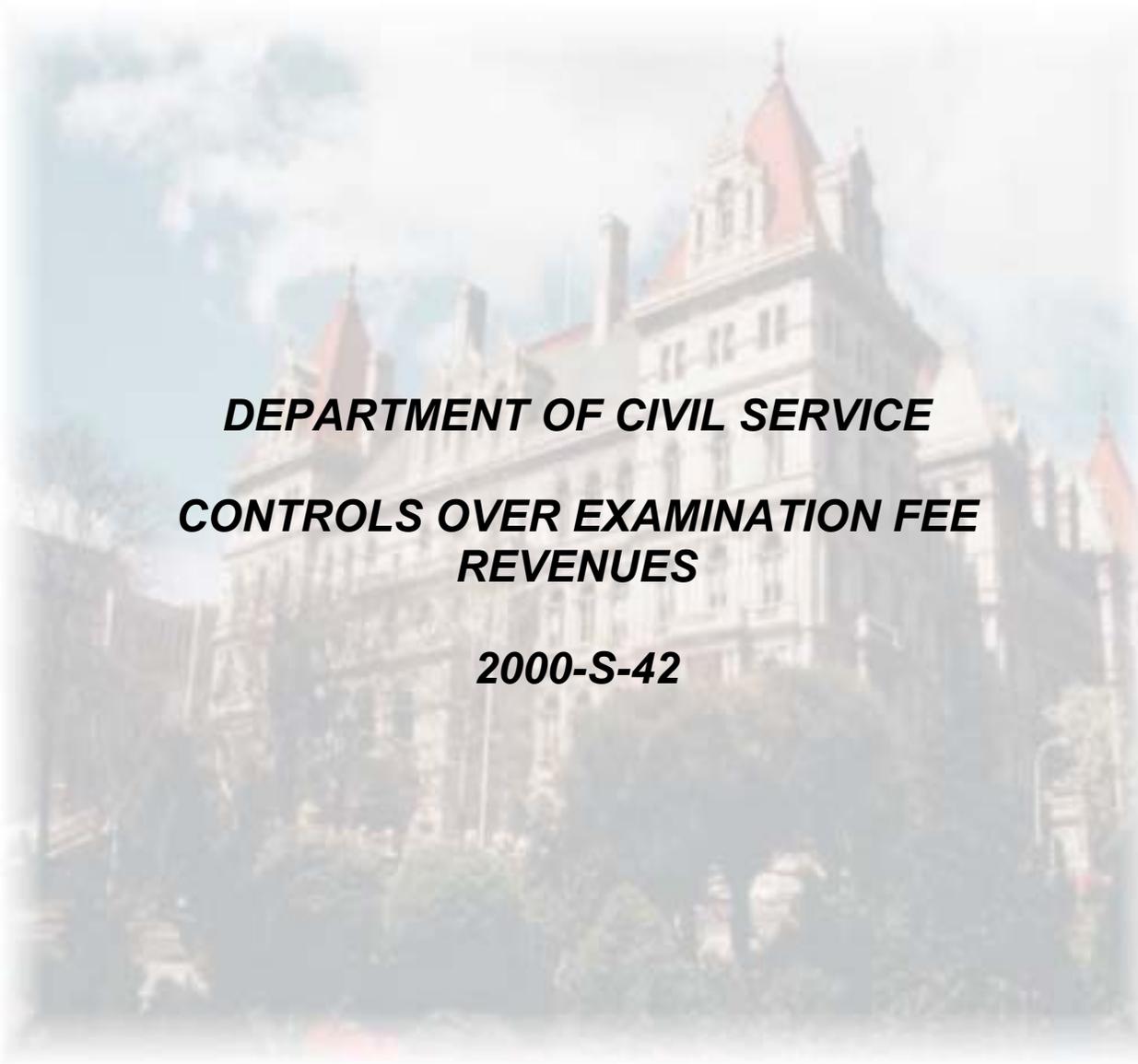


NEW YORK STATE OFFICE OF THE STATE COMPTROLLER

**H. Carl McCall
STATE COMPTROLLER**



**DEPARTMENT OF CIVIL SERVICE
CONTROLS OVER EXAMINATION FEE
REVENUES**

2000-S-42

**DIVISION OF MANAGEMENT AUDIT AND
STATE FINANCIAL SERVICES**

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H. Carl McCall
STATE COMPTROLLER

Report 2000-S-42

Mr. George C. Sinnott
Commissioner
Department of Civil Service
Building 1, State Campus
Albany, NY 12239

Dear Mr. Sinnott:

The following is our report on the Department of Civil Service controls over examination fee revenues.

This audit was performed pursuant to the State Comptroller's authority as set forth in Article V, Section 1 of the State Constitution and Article II, Section 8 of the State Finance Law. Major contributors to the report are listed in Appendix A.

Office of the State Comptroller
Division of Management Audit
and State Financial Services

February 15, 2002

Division of Management Audit and State Financial Services

A.E. SMITH STATE OFFICE BUILDING ♦ ALBANY, NEW YORK 12236
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EXECUTIVE SUMMARY

DEPARTMENT OF CIVIL SERVICE CONTROLS OVER EXAMINATION FEE REVENUES

SCOPE OF AUDIT

The Department of Civil Service (Department) administers the New York State Civil Service Law regarding the appointment, promotion and transfer of personnel in the State workforce. The Department collects application fees for open competitive examinations for competitive class positions in New York State service. These examinations have application processing fees ranging from \$15 to \$35. Department data shows that State fees collected for examinations totaled about \$2.1 million for the period April 1, 1998 to September 30, 2000.

Examination applications are received in the Department's mailroom, which forwards them to the Application Fee Unit (Fee Unit), where staff record fees received on the applications, collect receipts and deposit them in the Department's bank account. The Fee Unit forwards completed applications to the Data Entry Unit, where staff enter applicants' examination and fee data into the Department's computer system (System). When applicants do not enclose the proper examination fee, the Fee Unit marks the amount due on the application and the System produces a "fee due" letter for mailing.

Our audit addressed the following question about Department controls over examination fee revenues for the period April 1, 1998 through September 30, 2000:

- Is the Department's system of internal controls capable of ensuring that examination fee revenues are received properly, recorded accurately and deposited timely?

AUDIT OBSERVATIONS AND CONCLUSIONS

We found that the Department needs to strengthen controls over its processing of examination fee revenues. Our review of a sample of transactions selected from the Fee unit's records available did not disclose any discrepancies; however, we conclude that Department controls are sufficiently weak that Department managers do not have reasonable assurance that all examination fees received are actually deposited, and there is a risk these funds could be lost or stolen without detection.

Standards of internal control over cash require that funds be recorded immediately upon receipt, checks be restrictively endorsed and transactions be documented completely and accurately. However, we found that the mailroom does not record and restrictively endorse checks immediately upon receipt. As a result, these funds are subject to increased risk of loss. Department officials agreed to change their process and have unopened mail delivered directly to the Fee Unit. Further, the Fee Unit does not always record receipts accurately. When fees received exceed the amount required, the Fee Unit returns the payment to the sender and notes on the application that no fee was received. We also identified duplicate transactions and incorrect fees on the System. The errors are not detected because Fee Unit receipts are not reconciled to amounts entered on the System, and because the System does not have edits to identify obvious errors. Department officials agreed to implement edit checks within the system to identify duplicate records. (See pp. 5-8)

The reconciliation of cash received to amounts deposited verifies whether all cash receipts are deposited in authorized accounts. However, we found the Department does not have a procedure to compare cash receipts to deposits. To determine if fees received were deposited, we compared System data to bank deposits for 45 randomly selected days in the 1999-2000 fiscal year. We could not reconcile deposits on 36 of those days, principally because staff are allowed to alter the amounts recorded in original entries on the System. We recommend that System changes be made through adjusting entries and that the Department reconcile daily cash receipts to deposits. (See pp. 8-9)

Another key feature of control over cash is the separation of duties so one employee does not have control over all aspects of the collection process. However, we found that Fee Unit employees receive and record receipts, make deposits and change transactions on the System. An employee in this position could misappropriate funds and hide the loss on the System. Although separating duties may be difficult in a small unit like the Fee Unit, the Department could achieve control objectives by improving supervision and by using another system, such as a lock box, for fee deposits. In response to our preliminary report, Department officials indicated they took corrective action. (See pp. 9-10)

System data shows that the Department collects a very high rate of unpaid fees due from applicants. However, to further improve the process, we recommend the Department develop a policy and procedures to prevent persons who owe fees from applying for future exams without first paying the original unpaid fee. (See pp. 11-12)

COMMENTS OF DEPARTMENT OFFICIALS

A draft copy of this report was provided to Department officials for their review and comment. Their comments have been considered in preparing this final report. Department officials generally agreed with our recommendations and indicated actions taken or planned to improve the processing of examination fees.

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INTRODUCTION

Background

The New York State Department of Civil Service (Department) is the central personnel agency for the Executive Branch of State government. The Department also provides technical services to improve the administration of the State's 104 municipal civil service agencies (excluding New York City). The Department is responsible for providing the State of New York with a trained, capable and motivated public work force. To accomplish this goal, the Department carries out a number of functions, including administering the New York State Civil Service Law (Law) as it governs the appointment, promotion and transfer of personnel.

The Department, pursuant to Section 50.5 of the Law, collects application fees for open competitive examinations for competitive class positions in New York State service. These examinations have certain minimum requirements and are open to the public. The fees for these examinations range from \$15 to \$35. All applications must be accompanied by a fee unless the fee is waived due to certain circumstances specified in the Law (e.g., unemployed applicants who are primarily responsible for the support of a household, and recipients of some types of public assistance). Department records show that the value of waivers claimed totaled about \$587,000 for the period April 1, 1998 to September 30, 2000. The Department estimates it receives between 85,000 and 110,000 applications annually. According to the Department, examination fee revenue totaled for State administered exams about \$2.1 million from April 1, 1998 to September 30, 2000 including about \$1.7 million from applicants and \$.4 million in lump sum payments from unions for their members. The State Finance Law requires that the Department transfer this revenue to the State Treasury at least semimonthly.

Examination applications are received in the Department's mailroom, which forwards them to the Application Fee Unit (Fee Unit) within the Department's Staffing Services Division. The Fee Unit is responsible for processing applications for open competitive examinations, including writing on the application the amount of the fee revenue received (or indicating that the

fee is waived) and collecting and depositing the fee revenue in the Department's bank account. The Fee Unit forwards completed applications to the Data Entry Unit, where staff enter applicants' examination and fee data into the Department's computer system (System). When an applicant underpays the required application fee, the Fee Unit marks the amount due on the application, and the System prints a "fee due" letter, which is mailed to the applicant. When an applicant overpays the application fee, the Fee Unit indicates on the application that no payment was received, and returns the payment to the applicant, along with a "fee due" letter for the correct fee. The Department allows a qualified candidate who has not paid the required application fee to sit for the examination, but it will not reveal the candidate's test score or place a passing candidate on an eligibility list until the fee is paid.

Audit Scope, Objective and Methodology

We audited the Department's controls over the State fees collected for examinations for the 30-month period April 1, 1998 through September 30, 2000. The objective of our financial-related audit was to determine whether the Department's system of internal controls is capable of ensuring that examination fee revenues are received properly, recorded accurately and deposited timely. To accomplish our objective, we reviewed Department procedures for collecting examination fees and examined Department reports of fees collected. We also observed Department mailroom processing of incoming mail containing examination applications and checks. In addition, we selected a sample of applications received and traced them and the corresponding checks to Fee Unit records. Further, we selected a random sample of receipts, as recorded in Fee Unit records, to trace to bank deposit records, and we examined a judgmental sample of monthly bank reconciliations to determine whether reconciliations were consistently performed and whether any discrepancies found were properly resolved. We also tested a sample of claimed waivers to determine if the applicants participated in approved programs.

We conducted our audit with generally accepted government auditing standards. Such standards require that we plan and perform our audit to adequately assess those Department operations that are included within our audit scope. Further, these standards require that we understand the Department's internal control structure and its compliance with those laws, rules, and regulations that are relevant to the operations which

are included in our audit scope. An audit includes examining, on a test basis, evidence supporting transactions recorded in the accounting and operating records and applying such other auditing procedures as we consider necessary in the circumstances. An audit also includes assessing the estimates, judgments and decisions made by agency management. We believe that our audit provides a reasonable basis for our findings, conclusions and recommendations.

We use a risk-based approach when selecting activities to be audited. This approach focuses our audit efforts on those operations that have been identified through a preliminary survey as having the greatest potential for needing improvement. Consequently, by design, finite audit resources are used to identify where and how improvements can be made. Thus, little audit effort is devoted to reviewing operations that may be relatively efficient or effective. As a result, our audit reports are prepared on an “exception basis.” This report, therefore, highlights those areas needing improvement and does not address in detail those activities that may be functioning properly.

Internal Control and Compliance Summary

Our analysis of the internal control structure relating to the collection of examination application processing fees identified significant weaknesses in controls. These matters are presented in the section of this report entitled “Controls Over Examination Fee Revenues.”

Comments of Department Officials to Audit

A draft copy of this report was provided to Department officials for their review and comment. Their comments were considered in preparing this final report and are included as Appendix B. Department officials generally agreed with the recommendations and indicated they have implemented or plan to implement them. They also noted that the recommendation regarding the use of a lock box was not presented for their review prior to the draft report, but they will look into its use. We are encouraged by the Department officials’ willingness to improve its processing of examination fees.

Within 90 days after final release of this report, as required by Section 170 of the Executive Law, the Commissioner of the

Department of Civil Service shall report to the Governor, the State Comptroller, and the leaders of the Legislature and fiscal committees, advising what steps were taken to implement the recommendations contained herein, and where recommendations were not implemented, the reasons therefor.

CONTROLS OVER EXAMINATION FEE REVENUES

A system of good internal controls can help agency officials meet their program goals and objectives and safeguard assets from loss. Tenets of good internal control over cash receipts require the immediate recording of receipts, the prompt deposit of all funds received, adequate separation of cash handling duties and careful supervisory monitoring of the examination fee collection process to help ensure controls are effective. However, we found the Department has not established an adequate system of internal controls over the fees it collects. Although our review of a sample of transactions that were recorded and available for review did not disclose any mishandlings of funds, there is significant risk that fee revenue could be lost or stolen without detection.

Department officials told us that they are undertaking initiatives to make the application fee process more efficient and accountable, including on-line exam applications, acceptance of fees by credit cards, and other improvements.

Recording Fee Receipts

According to New York State Internal Control Standards, transactions should be recorded promptly and documented completely and accurately. Funds should be recorded immediately upon receipt, and checks restrictively endorsed, because it is much more difficult to detect losses that occur before this initial record is made. Documentation of transactions should be complete and accurate to enable supervisors and managers to trace each transaction from its inception through its completion.

We concluded that funds received are not promptly recorded. Department mailroom staff slit all mail received and send envelopes that are addressed to “Application Processing” or that contain open competitive examination applications to the Fee Unit. However, mailroom staff do not further examine the mail contents, record checks received or restrictively endorse checks prior to forwarding the mail to the Fee Unit for processing.

Funds that are not recorded immediately upon receipt are subject to an increased risk of loss. To address the issue, Department officials proposed to change their procedures whereby the unopened mail would be delivered directly to the Fee Service Unit for processing.

We also found that the Fee Unit does not always record the amount of fees received with the applications. For example, when applications include a payment that exceeds the required application processing fee, the Fee Unit returns the original payment to the applicant and instructs the applicant to send the correct amount. The Fee Unit's practice is to indicate, "no fee received" on such an application, and forward it to the Data Entry Unit, where staff enter this information on the System. Thus, both the application and computer system incorrectly show that no fee was received.

This practice is not in compliance with sound internal control principles, which require that all funds received be recorded and deposited and that refunds of overpayments be made subsequently. Further, it does not comply with the State Finance Law, which requires that refunds due as a result of overpayment be processed through the State Comptroller's Office. Returning overpayments to applicants also results in uncollected fees. We obtained a download of data for the period April 1, 1998 to September 30, 2000 containing approximately 150,000 records. We sorted the data to identify applications received during our audit period for which an overpayment had been returned to the applicant and for which the System had generated a "fee due" letter. We determined that the Department had returned checks that represented overpaid application fees to 96 applicants and that in 62 instances (65 percent), the applicants did not resubmit the correct amount. Although the amount owed for these 62 instances is not substantial, we believe the large number of applicants who did not resubmit the correct fee should be of concern to the Fee Unit. Department officials agreed to implement refund procedures in accordance with the State Finance Law.

The Fee Unit staff examines each application for: completeness; identification of examinations being applied for; fee requirement; and verification that the postmark is within the required filing deadline. Applications are given a status of fee paid, fee waived, fee paid for by the union, or fee due; and then numbered with a Bates stamp (a consecutive numbering system

that is uniquely recorded on the applicants' checks, money orders and application forms for record control purposes).

After the Fee Unit processes the applications and payments, the applications are sent to the Data Entry Unit. To ensure that the Data Entry Unit properly records the total number of applications received and the total amount of fees collected on the System, the number and dollar amount of Data Entry Unit transactions should be reconciled to the number and dollar amount of the applications processed by the Fee Unit. However, the Department does not provide for such a reconciliation. The Data Entry Unit maintains a log for recording the dates when batches of applications are received from the Fee Unit, but this log does not include the number and dollar amount of applications received and processed. Further, there is no process in place to reconcile the total amount of fees, as manually recorded on the applications, to the total amount of fees, as entered on the System. The lack of a reconciliation process reduces the assurance that errors will be promptly detected and corrected. Additionally, since the applications are not filed by processing date, there is no easy way to compare the total amount of application fee revenue deposited on a certain date to the amounts entered on the computer system for the same date. Department officials agreed to revise the logs to include the total number of applications sent to Data Entry.

To test the accuracy of fee revenue information on the System, we analyzed the download of data. Our analysis shows that the System contained 207 duplicate application records. In addition, we noted four instances of fee amounts erroneously recorded in the fee system ranging from \$892 to \$2,500. We were advised that although the Data Entry Unit double enters data to verify the accuracy of the information entered, errors still occur. These kinds of errors occur because the System does not have edits to prevent or detect the creation of duplicate records when applicants file multiple applications, or edits to make sure the fee amounts paid are recorded correctly. Without such edits, the Department has less assurance that all fees received are correctly recorded in the System. Department officials agreed to implement edit checks within the system to identify duplicate records.

Department officials told us that the System was originally designed to record and process applications received for State examinations and to manage test administration. The System was later modified to include maintenance of fee records, but it

did not include appropriate edits to control fee processing. We believe that if other controls over fee revenues were adequate, they would compensate for this control weakness. However, since the Department does not establish accountability for fees when checks are initially received in the mailroom, the fee maintenance portion of the System functions as the Department's primary record for application fee revenue. Due to the lack of System edits and other controls to ensure the prompt and accurate recording of application fees, there is less assurance that fees are properly received and accounted for and accurately recorded on the System. We recommend management take prompt action to address the above deficiencies.

Depositing Fees Received

Good internal controls dictate that funds received be deposited promptly. We found that application fees received are normally deposited within a day or two of receipt. In some instances, however, checks were not deposited for up to three weeks. This occurs when applicants send checks without providing sufficient information for the Fee Unit staff to determine how to apply the payment. For example, an applicant who did not initially submit the correct fee may later send in a payment without an accompanying explanation. The Fee Unit procedure is to hold such a check, rather than deposit it, until staff complete a detailed investigation, which can take up to three weeks. The checks are not restrictively endorsed, and the delays in depositing them increases the risk that they could be lost or misappropriated.

Another important internal control over cash receipts is reconciliation of the fees received and recorded to deposits to determine if all funds are deposited in the bank. If discrepancies are found, they can be investigated and corrective action taken. However, we found that the Department does not have a procedure to compare fees received to deposits. As a result, funds could be lost or misappropriated without detection. We compared System data to amounts deposited for a sample of 45 randomly selected days during the 1999-2000 fiscal year to determine whether the receipts from fees recorded on the System agreed with the fee amounts deposited. We were unable to reconcile the deposits on 36 of the 45 days due to the fact that staff can change the fee amount initially entered on the System's record of receipts at a later date, including after the deposit is made. Therefore, we

could not reliably determine the amount of actual cash receipts on a particular day, or whether all application fees received on a certain date were deposited.

Separating Duties

A fundamental control over the collection of funds is the separation of duties that prevents one employee from controlling all aspects of the collection process. For example, at a minimum, employees processing cash receipts should not prepare and make deposits, maintain accounting records, reconcile deposits to receipts or reconcile bank accounts. We found that all aspects of the fee collection process are done by the Fee Unit, which is staffed by two full-time employees and one part-time employee. If one employee is out, the remaining staff must do the work of the absent person. As a result, each of the staff performs multiple cash collection functions. For example, the same employee can record initial receipts on the applications, prepare deposits, handle notices for outstanding fees and reconcile the bank account. Also, the employee who prepares the daily bank deposits also does the weekly bank reconciliation. Because Fee Unit staff control both the cash receipts and the applications, it would be possible for them to change an application that includes a fee to a waiver, and misappropriate the fee. We were unable to review complaint files to determine if applicants complained that they submitted fees for which they were not credited. However, we selected a random sample of 70 applications that claimed waivers or membership in a union that pays exam fees, and sent letters to the applicants asking them to confirm that they requested a waiver. We did not receive a response to 38 letters. For the 32 responses received, there were no exceptions. Department officials advised that in response to our preliminary findings, these cash collection functions and separation of duties were corrected in February 2001.

As noted earlier, Fee Unit staff can change most application information on the System, including the fee amount received. Since they also have cash handling responsibilities, Fee Unit staff should not be able to change application data on the System. These functions are incompatible because an employee could misappropriate funds and make changes on the System to hide the loss.

We also determined that there was no record of what data was changed or who made the change. Department officials told us

that after we did our field work the System was revised to identify the information that was changed, and the person who made the change. While this is an improvement, the System still does not show the history of the transaction that was changed. For example, if a fee amount is entered and then changed at a later date, the System does not identify the amount of the original entry. To achieve accurate records of receipts and preserve an audit trail of all transactions, the original fee amount in the transaction should not be altered to make a correction; rather, there should be a new transaction created to adjust the original transaction. This new transaction should reference the original entry.

Department officials told us that they are pursuing on-line applications and acceptance of credit cards for exam fees. These initiatives could significantly reduce the cash receipts currently handled by the Fee Unit and make it easier to separate the cash collection function from other duties. Another alternative the Department should consider is the use of a lock box system to collect application fees. When a lock box is used, applicants mail applications and fees to a bank-operated lock box. The bank deposits the fees into a designated account and provides reports of the collections to the agency. Because the lock box removes the cash handling function from the agency staff, it could help bring about the duty separation needed to improve controls over cash receipts. The Department would need to do a cost benefit analysis to determine if the use of a lock box is a practical alternative for the program.

Monitoring Fee Collection Activities

Monitoring is an important component of an effective system of internal controls. Monitoring is the review of an organization's activities and transactions to assess the quality of performance over time and to determine whether controls are effective. Supervision is a key element of monitoring, and is an especially important control feature in situations where a few employees in a small unit, such as the Fee Unit, are performing incompatible duties. For example, contemporaneous supervisory review of the fee collection process includes a comparison of receipts to deposits to determine if all receipts were deposited, but does not include a review of all adjusting transactions in computer application records to ensure they are proper. To assess the collection process supervisors could also compare the amount of fees that should have been collected for a given period of time, based on the number of applicants at

each fee level, to the amounts deposited. Differences that exceed a pre-established tolerance rate could be investigated to determine if problems exist.

However, there are no procedures in place for supervisory reviews of the transactions processed by the Fee Unit. Department officials told us that supervisory reviews were done on an as needed basis, but the reviews were not documented. Without reviews of the Fee Unit's activities by supervisors or persons independent of the unit, it is less likely that potential problems will be identified and corrected.

Collecting Unpaid Fees

Unpaid fees result from applicants not sending any payment, too small a payment or sending a check for an amount higher than what is owed with their applications. The Department returns checks that are more than the required fee along with a "fee due letter." To help ensure that legitimate candidates are not denied the opportunity to take an examination that may not be offered again for a number of years, Department policy is to allow applicants who have not paid the fee, but who otherwise meet the minimum qualifications required for admission, to sit for the examination. We believe this approach is appropriate.

The Department's main control for collecting unpaid application processing fees is a policy to withhold scores from those who owe a fee, and to not place passing candidates on an eligibility list until the fee is paid. Our analysis of the download of System data for our audit period shows that the collection process results in a very high rate of collection. The download shows that 3,639 applications had outstanding fees totaling \$83,605, or 2.4 percent of the total amount due. However, we found weaknesses with the collection process.

We found that the procedure to withhold persons owing a fee from an eligibility list was not always followed. Our review of Department eligibility list data for our audit period showed there were 199 instances in which an applicant who owed a fee, also appeared on an eligibility list for appointment. After we brought this matter to their attention, Department managers investigated these instances and found that in 90 of these cases, the applicant had either paid the fee due or applied for a waiver but their records were not corrected to reflect the changes. This means 109 persons who had not paid application fees were

improperly included on eligibility lists, and that 90 persons who had paid or waived their fees were incorrectly listed in Department records as not having paid application fees. One reason the System may inappropriately identify applicants as still owing a fee results from submitting the payment due with a duplicate application for the same examination. In these cases, the Fee Unit matches the second application with the payment received and forwards it for data entry; and the first application remains on the system as an unpaid account. Department officials advised they did an analysis of these applicant records that revealed that most of these applicants either did not possess the minimum qualifications and were disapproved for the exam or chose not to appear for the exam.

We also found that the Department does not have a policy or procedure to prevent a person with outstanding unpaid fees from applying for future examinations without paying the fees owed. The Department treats each examination application separately and does not consider outstanding fees due from prior examinations. We believe the Department should create a computerized file of applicants who owe fees and match applications for future examinations to that file when new applications are entered on the System.

To effectively monitor and control unpaid fees, the Department should maintain a summary list of unpaid application fees and update it as collections are made. The System identifies unpaid fees, but it does not routinely provide the Fee Unit with updated summaries of unpaid application fees, an aging schedule showing how long unpaid fees have been outstanding or an analysis of the trends of the rate of unpaid fees. Although the Fee Unit does keep a manual master list of the “fee due” letters that are sent out each week, staff do not update this master list when a payment is received or periodically recap the list to determine the current amount of outstanding unpaid fees. (Responding to the draft report, Department officials advised us they requested funding for the development of a new Exam Scoring System, which will have an accounting module. The new system will routinely produce management reports for the Fee Unit.)

Transferring Funds to the State Treasury

New York State Finance Law requires that all revenues received be transferred to the State Treasury at least semimonthly. Our review of the transfer of application fee

revenues shows that prior to February 2000, the Department transferred examination fees to the State Treasury on a regular basis, although not semimonthly, as required. However, the Department did not transfer exam fees to the State Treasury from February 2000 through September 2000. The balance in the Department's bank account for application fees had accumulated to \$829,912 as of October 4, 2000. Delays in transferring these funds results in the State not being able to either use or invest these funds in a timely way.

Department officials told us that this delay occurred because the 2000-2001 State Budget incorporated a change in the way revenue generated from application processing fees would be used. Department officials stated that they were advised by the Division of the Budget to refrain from making deposits into the State's General Fund until outstanding questions about the use of the funds could be resolved. Once resolved, the Department made an initial transfer of \$700,000 in October 2000. A second transfer was made in December 2000 in the amount of \$320,191. Department officials told us that they have subsequently revised their procedures to transfer revenues twice a month to comply with State Finance Law requirements.

Recommendations

1. Establish an adequate system of internal controls over cash receipts, which includes, but is not limited to, the implementation of the following measures:
 - Record funds immediately as soon as they are received, and restrictively endorse checks upon receipt.

(Responding to the draft report, Department officials indicated that the Comptroller's Office rejected their proposal to have unopened mail delivered directly to the Fee Service Unit for processing. As a result, they proposed to have staff external to the Fee Unit process the mail and restrictively endorse checks, resources permitting.

Recommendations (Cont'd)

Auditors' Comments: The Department's initial proposal was not rejected by this office. In fact, the proposal appears on page 6 of the report as the Department's proposed resolution to the issue. As a result, Department officials should select the process they believe addresses the issue in the most effective manner, given the staff resources.)

- Promptly deposit all funds received. Do not return checks to applicants when overpayments are received; instead, issue refund checks in compliance with the State Finance Law.
- Record and reconcile the number of applications that are forwarded from the Fee Unit to the Data Entry Unit to determine if all applications sent to data entry are processed.

(Department officials indicated in their reply to the draft report that they have established a process in which, besides reconciling the number of applications between these two units, they will reconcile the fees received in the Fee Unit with the fees processed.)

- Establish System edit checks to identify duplicate records and erroneous fee amounts.
 - Record new transactions to adjust prior transactions, rather than alter records of the original transaction.
 - Establish adequate separation of duties so that employees do not perform incompatible duties such as handling and recording cash receipts and reconciling bank accounts.
2. Evaluate the cost benefits from using a lockbox operation to collect and deposit examination application fees.
 3. Implement improved procedures to monitor and maximize collection of unpaid application fees:
 - Routinely produce computer reports of summary and detail records of unpaid fees, including aging schedules and analysis of the trends of unpaid fees; and

Recommendations (Cont'd)

- Prevent applicants that owe fees from being placed on eligibility lists.
4. Implement improved procedures for supervisory reviews of application Fee Unit transactions and activities.
 5. Transfer revenues collected to State Treasury in compliance with the State Finance Law.

(Department officials replied to the draft report that they are in compliance with the State Finance Law pursuant to an amendment in the 2000-2001 State Budget that changed the manner in which revenue from application processing fees are used.)

MAJOR CONTRIBUTORS TO THIS REPORT

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January 15, 2002

Ms. Carmen Maldonado
Audit Director
Division of Management Audit and
State Financial Services
Office of the State Comptroller
123 William Street, 21st Floor
New York, NY 10038

Dear Ms. Maldonado:

Enclosed is the Department's response to your letter concerning the Office of the State Comptroller's audit findings relative to the internal controls over examination fee revenues (2000-S-42).

Please feel free to contact Ms. Regina DuBois, Director of Internal Audit, if you have any questions.

Sincerely,

A handwritten signature in black ink that reads "George C. Sinnott". The signature is written in a cursive style with a large, stylized "G" and "S".

George C. Sinnott
Commissioner

Enclosure

cc: Ms. Carole Stone, Division of the Budget
Ms. Deirdre Taylor, Division of the Budget
Mr. David English, Division of the Budget
Ms. Andrea Zaretzki, Assembly Committee on Oversight, Analysis & Investigation

Appendix B

Department of Civil Service's Response to Fee Unit Audit

January 15, 2002

Recommendation: Establish an adequate system of internal controls over cash receipts which include, but is not limited, to the implementation of the following measures:

- Record funds immediately as soon as they are received and restrictively endorse checks upon receipt.

Response: The Department has reviewed this recommendation in light of some unique staffing issues in the Mail Room. The Department previously suggested, as one alternative, to have all incoming mail addressed to the Processing Unit, delivered unopened to the Application Fee Unit. Since this amelioration was rejected by the Comptroller's Office, we will, resources permitting, identify staff external to the Fee Unit to open the Fee Unit's mail, make a record of checks received and restrictively endorse the checks.

Recommendation: Promptly deposit all funds received. Do not return checks to applicants when overpayments are received; instead, issue refund checks in compliance with the State Finance Law.

Response: While this recommendation will require a substantial increase in the Unit's work load, we understand our obligation to issue refunds pursuant to the State Finance Law. The Department will implement this recommendation.

Recommendation: Record and reconcile the number of applications that are forwarded from the Fee Unit to the Data Entry Unit to determine if all applications sent to data entry are processed.

Response: The Department will produce a report of all fee applications that are data entered. This report will include all applications by Bates stamp number and all fees entered for that day. This report will be reconciled with the daily deposits and applications processed in the Fee Unit. In this way, we will be establishing a stronger internal control than recommended, as we will be reconciling the number of applications sent from the Fee Unit to Data Entry and also reconciling the fees received in the Fee Unit with the fees processed.

Recommendation: Establish System edit checks to identify duplicate records and erroneous fee amounts.

Response: The Department has requested funding for development of a new Exam Scoring System. A revised Fee System, which will also have an accounting module in it, would be part of this new System. However, until work begins on this new system our IRM Division staff will make changes,

updates and revisions to our current Fee System. We will produce a report identifying duplicate records by exam and series date. In addition, changes will be made to the data entry program to identify grossly erroneous fee amounts that will alert the data entry operator an error has been made and must be changed to complete the processing of the application. This, combined with the previously mentioned reconciliation of the number and dollar amount of applications processed by the Fee Unit and Data Entry, will reveal any discrepancies that may occur.

Recommendation: Record new transactions to adjust prior transactions, rather than alter records of the original transaction.

Response: The Department will modify the Fee System so that when changes are made to an existing transaction, a new row will be created to reflect the change and the original entry will be kept as a history row.

Recommendation: Establish adequate separation of duties so that employees do not perform incompatible duties such as handling and recording cash receipts and reconciling bank accounts.

Response: We have already implemented this recommendation. Under existing procedures, one staff member records cash receipts and prepares deposits while the other, the unit supervisor, reviews such deposits and maintains and reconciles accounting records.

Recommendation: Evaluate the cost benefits from using a lockbox operation to collect and deposit examination application fees.

Response: This recommendation had not previously been discussed with us. The Department will look into the use of a lockbox operation within the context of our programmatic requirements.

Recommendation: Implement improved procedures to monitor and maximize collection of unpaid application fees:

- Routinely produce computer reports of summary and detail records of unpaid fees, including aging schedules and analysis of the trends of unpaid fees; and

Response: As part of our proposed new Exam Scoring System, management reports could be routinely produced for the Fee Unit. However, in the meantime, the Department will produce periodic computer reports of summary and detail records of unpaid fees, which we will analyze to determine trends and issues of import. Currently, such analysis has been done on an “as needed” basis.

Recommendation: Prevent applicants that owe fees from being placed on eligible lists.

Response: The Department has a process in place to preclude candidates who owe fees from being placed on eligible lists. While OSC's findings may have identified a small number of cases from among the tens of thousands of list eligibles, those instances resulted from human or system error. The Department will, however, review the program that is run prior to list establishment that identifies those candidates who have not paid their fee and our internal procedures with an eye toward strengthening our control over this function.

Recommendation: Implement improved procedures for supervisory reviews of Fee Service Unit transactions and activities.

Response: The Department will implement additional procedures for supervisory reviews of the Fee Unit

Recommendation: Transfer revenues collected to State Treasury in compliance with the State Finance Law.

Response: The Department does comply with the State Finance Law pursuant to an amendment contained in the 2000-2001 State Budget that changes the manner in which the revenue generated from the application processing fees would be used.