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STATE COMPTROLLER



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STATE OF NEW YORK
OFFICE OF THE STATE COMPTROLLER

November 27, 2002

Mr. Thomas A. Maul
Commissioner
Office of Mental Retardation & Developmental Disabilities
44 Holland Avenue
Albany, NY 12229

Re: Overtime Expenditures
Report 2001-S-54

Dear Mr. Maul:

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, we have audited selected aspects of the management of overtime expenditures by the Office of Mental Retardation and Developmental Disabilities (OMRDD). Our audit covered the period April 1, 1999 through June 30, 2002.

A. Background

OMRDD serves and supports more than 123,000 New Yorkers who are developmentally disabled. It delivers both institutional and community-based services to the disabled, as well as to their families, through a network of nonprofit providers and State-operated developmental centers and community-based programs. OMRDD operates out of 13 district offices, known as Developmental Disabilities Services Offices (DDSOs). OMRDD employs approximately 22,250 persons, most of whom work directly with the agency's clients.

OMRDD's expenditures for personal services, including overtime, increased 6 percent over our three-year audit period, from \$770 million in fiscal 1999-00 to more than \$815 million in fiscal 2001-02. By comparison, OMRDD's overtime expenditures increased 55 percent during the same period, from about \$29 million in fiscal 1999-00 to almost \$45 million in fiscal 2001-02. According to DDSO officials, the increase in paid overtime was due to a variety of reasons, including salary increases; the need to maintain minimum staffing levels; providing one-to-one staffing for those in need; and staffing DDSOs to meet certification requirements.

Each DDSO is responsible for processing its own payroll. DDSOs keep manual records of employees' time and attendance, including overtime worked at residences. DDSOs then enter payroll transactions on PaySR, the State's central payroll processing system.

B. Audit Scope, Objectives and Methodology

We audited selected aspects of OMRDD's management of overtime expenditures, as well as related time and attendance practices, for the period April 1, 1999 through June 30, 2002. The objectives of our audit were to determine whether OMRDD adequately manages its overtime costs, and whether its controls over overtime provide reasonable assurance that paid overtime is properly authorized, accurately recorded and actually worked by employees. To accomplish these objectives, we reviewed applicable laws, policies and procedures; interviewed OMRDD personnel at Central Office and at DDSOs; visited five DDSO locations (Capital District, Central, Western, Long Island and Taconic DDSOs); and reviewed a sample of relevant records and data.

We conducted our audit in accordance with generally accepted government auditing standards. Such standards require that we plan and perform our audit to adequately assess those OMRDD operations that are within our audit scope. Further, these standards require that we understand OMRDD's internal control structure and compliance with those laws, rules and regulations that are relevant to the operations 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 management. We believe 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 activities we have identified through a preliminary survey as having the greatest probability for needing improvement. Consequently, by design, we use our finite audit resources to identify where and how improvements can be made. Thus, we devote little effort to reviewing operations that may be relatively efficient or effective. As a result, we prepare our audit reports on an "exception basis." This report, therefore, highlights those areas needing improvement and does not address activities that may be functioning properly.

C. Results of Audit

OMRDD should manage personal service expenditures to minimize overtime costs, and pay for only those overtime hours that are properly authorized and worked by employees. However, we found that OMRDD officials need to do more to minimize overtime expenditures and improve controls over time and attendance, including overtime hours, at DDSOs. We found instances of duplicate overtime payments and errors in employee time and attendance records at each of the five DDSOs we visited. As a result, OMRDD paid more for overtime than it should have during our audit period. OMRDD's budgeting and monitoring practices may also contribute to rising overtime costs. We recommend that OMRDD recover duplicate payments, require Central Office to budget for and monitor overtime costs, and strengthen the procedures DDSOs use to control overtime costs.

1. Duplicate Payments

A properly functioning payroll system should accurately pay employees for the hours they work. However, during our audit period, we found that OMRDD made duplicate overtime payments of more than \$20,000, and potentially made another \$76,000 in such duplicate payments, because of weaknesses in the controls OMRDD has established to prevent and detect duplicate overtime payments. As a result, OMRDD paid more than it should have for overtime work by DDSO employees.

To identify potential duplicate payments at the five DDSOs we visited, we queried PaySR records for the 2000-01 fiscal year. As a result of this special query, we identified 375 potential duplicate payments. We visited each DDSO and examined manually maintained DDSO payroll records to determine whether these payments were actual duplicates. Our review determined that 211 of these payments totaling \$20,858 were indeed duplicate overtime payments. We then ran a PaySR query for all 13 DDSOs for the 2001-02 fiscal year and found an additional 721 potential duplicate payments that totaled approximately \$76,000. We identified potential duplicate payments at every DDSO. We provided these results to OMRDD officials for their investigation and recovery of those overtime payments that are determined to be duplicates. Given the results we achieved, we requested that PaySR make this specific query available to State agencies so they can use this test themselves on a periodic basis to identify potential duplicate payments.

2. Inaccurate Time and Attendance Records

Each State agency and department is required to maintain complete and accurate records of employee attendance. OMRDD Central Office has developed procedures that provide the general parameters DDSOs should follow in maintaining employee attendance records. To determine whether the DDSO procedures for monitoring employee time and attendance provide adequate accountability for overtime hours claimed, we selected a judgmental sample of the 25 highest overtime earners at each of the five DDSOs we visited. We then randomly selected three to five pay periods in our scope period to test these employees' overtime transactions for completeness, accuracy and proper documentation. For the 125 employees in our sample, we tested 476 timesheets that recorded a total of 2,278 overtime transactions, and found errors in 799 (35 percent) of these transactions. Most of these errors involved inaccuracies on the employees' official time and attendance (T&A) records. The errors we found fell into the following categories:

- 385 instances in which the overtime hours were not recorded on the T&A record;
- 137 instances in which the employee did not sign the T&A record;
- 138 instances in which the T&A record and overtime form disagreed on the amount of time worked; and
- 139 miscellaneous errors (e.g., missing sign-in/out sheets and discrepancies between the authorization form and the sign-in/out sheet).

For example, we attribute the errors we found at Taconic to the way T&A records are maintained. When employees sign their T&A records, they are asserting that the time recorded represents the number of hours they actually worked. At Taconic, however, the supervisor at the employee's assigned location maintains the employee's T&A records and records the employee's

attendance from the sign-in/out sheets at that location. Thus, Taconic employees often do not fill in their own timesheets. The T&A record should also capture all time worked during the pay period. However, the supervisor at the employee's assigned location may not know about an overtime shift an employee worked at another residence, and so will frequently fail to include these hours on the employee's T&A record. We also found that Taconic officials do not rely on T&A record accuracy.

According to these officials, they instead emphasize the accuracy of the sign-in/out sheets and the overtime authorization forms at individual residences, since it is these records that generate overtime payments. At Taconic, employees review and sign the T&A record at the end of the covered period, and can take that opportunity to bring unrecorded overtime hours to the supervisor's attention so that recording issues can be investigated and corrected, if necessary.

These practices do not conform to time and attendance guidelines established by the Office of the State Comptroller (OSC). According to an official at OSC's Bureau of State Payroll Services, an overtime authorization should match the time record, but is not a guarantee that the employee actually worked the extra hours. This official stated that the T&A record, signed by the supervisor, certifies that the employee actually worked the hours and is the official record of attendance. T&A records support payroll expenditure, provide a basis for internal review and serve as audit evidence of controls in effect. For OMRDD to have assurance that its attendance records are complete and accurate, it is essential that T&A records, as well as other control features, be used properly and implemented consistently by all DDSOs. Central Office should remind DDSO officials of the importance of T&A records as a control device, and revise its procedures to require that DDSO staff complete their own T&A records, and that supervisors reconcile T&A records with overtime authorizations.

In response to our findings and recommendation on this matter, OMRDD officials stated that their new automated time system called Time Information Management Electronic (TIME) system will assist OMRDD toward the ultimate goal of 100 percent accuracy in time and attendance sheets.

The TIME system will include supervisory approval and directly feed time entry transactions to PaySR. According to OMRDD officials, the TIME system is scheduled for implementation on a pilot basis during the 2003-04 fiscal year.

3. Budgeting for Overtime

Management is responsible for monitoring overtime usage and for seeking ways to control overtime costs while still providing adequate services. However, we found that OMRDD's overtime expenditures grew significantly during our audit period: between the 1999-00 and the 2001-02 fiscal years, overtime expenditures increased 55 percent.

OMRDD officials acknowledge that overtime costs increased substantially from the 1999-00 to the 2001-02 fiscal years, but also maintain that OMRDD stayed within its total personal service allocation and within its overall budget in the above years, despite the effect of factors that contribute to increased overtime. Among these factors are sudden takeovers of voluntary facilities to protect residents' health and safety; the need to meet mandated minimum staffing requirements; an aging consumer population that requires more care; a greater number of behavioral problems in the

OMRDD consumer population; and staffing issues, such as an aging workforce, high staff turnover and difficulties in recruiting new staff.

According to OMRDD officials, OMRDD allocates its annual appropriation monies to the 13 DDSOs based on their respective needs. Central Office initially budgets DDSOs' overtime costs at 1 to 2 percent of their personal service allocation. DDSO officials then track their overtime expenditures and, based on overtime costs incurred, periodically update their overtime budgets for costs they expect to incur in the remainder of the year. However, as the following table shows, actual costs are significantly higher than 2 percent of OMRDD's personal service allocation. Thus, the two percent budget for overtime seems unrealistic.

| Budgeted vs. Actual Overtime Costs | | | |
|---|--|----------------------------------|---|
| Fiscal Year | Budgeted Overtime Costs (2% of Personal Service Allocation) | Actual Overtime Costs | Percent Actual Costs Exceed Budgeted Costs |
| 1999-00 | \$14,684,920 | \$29,580,288 | 101.4 % |
| 2000-01 | \$16,351,840 | \$37,603,586 | 130.0 % |
| 2001-02 | \$16,457,200 | \$44,710,511 | 171.7 % |

We recognize that DDSOs must have enough flexibility to use overtime, as necessary, to meet consumers' needs. However, overtime – which costs 50 percent more than straight time – is an expensive way to staff residences. While OMRDD has thus far stayed within its allocation for personal services and its overall budget, it may not do so in the future if overtime costs continue to rise in an era of State budget cutting. We believe OMRDD should actively plan for and control the growth of overtime costs to avoid the potential for future overspending. To help anticipate and control overtime expenditures, Central Office should require each DDSO to prepare a personal services budget with realistic estimates for overtime, and then monitor against these budgets.

Recommendations

- 1. Follow up on suspected duplicate payments and recover monies resulting from erroneous payments.*
- 2. Revise existing time and attendance guidance to provide DDSOs with more explicit procedures for documenting staff time and attendance and monitoring overtime hours worked. At a minimum, these control procedures should:*
 - require employees to complete their own time and attendance records; and*
 - require supervisors to reconcile completed time and attendance records with sign-in/out sheets, overtime authorizations and supervisor signatures.*
- 3. Prepare a personal services budget for each DDSO with realistic estimates for overtime and monitor against these budgets.*

We provided OMRDD officials with draft copies of this report for their review and comment. We considered OMRDD's comments in preparing this report and have included the comments as Appendix A. OMRDD officials agree with the three recommendations made in this report and indicated the steps they have taken or will take to implement them. OMRDD officials also requested

that certain changes be made to the text of the report. Appendix B contains State Comptroller's Notes, which address matters contained in OMRDD's response.

Within 90 days after the final release of this report, as required by Section 170 of the Executive Law, the Commissioner of the Office of Mental Retardation and Developmental Disabilities 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.

Major contributors to this report were Ed Durocher, Todd Seeberger, Brian Krawiecki, Timothy Marten, Wendy Pang, Mary Roylance, Vicki Wilkins and Nancy Varley.

We wish to thank the management and staff of OMRDD for the courtesies and cooperation extended to our auditors during the audit.

Very truly yours,

Kevin M. McClune
Audit Director

cc: Deirdre A. Taylor

George E. Pataki
Governor



Thomas A. Maul
Commissioner

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November 1, 2002

Mr. Kevin M. McClune
Audit Director
Office of the State Comptroller
110 State Street
Albany, NY 12236

Dear Mr. McClune:

This letter is the Office of Mental Retardation and Developmental Disabilities' (OMRDD) official response to the Office of the State Comptroller (OSC) draft audit report titled Overtime Expenditures Report 2001-S-54. Before addressing OSC's recommended corrective actions, several issues need to be clarified in the report's findings. Throughout the audit process, OMRDD has worked with OSC staff to review and respond to earlier findings and provide supporting documentation where appropriate. In several cases the comments and materials that OMRDD provided to OSC were neither recognized nor incorporated in this draft report.

Duplicate Payments

The report states that OMRDD has not established the controls necessary to prevent and detect duplicate overtime payments. OMRDD's August 2, 2002 response addressed this issue. The latest OSC draft does not reflect the earlier comments that detailed the size and geographic dispersion of our workforce and the difficulties involved in managing a payroll of 21,000+ staff where system-wide the volume of time entry related payroll transactions exceeds 500,000 annually. The internal control processes for certifying overtime payments exist at the DDSOs. The report indicates that \$20,858 in duplicate overtime payments was made during FY 2000-01 at five DDSOs. During that same period, approximately \$22 million in overtime was paid at these DDSOs. The accuracy rate was 99.91 percent.

*
Note
1

Also, in the August 2, 2002 response, it was stated that OMRDD approached OSC about the feasibility of building into the contemplated PaySR upgrade a warning message that would alert payroll staff when an attempt is made to enter more than one overtime transaction for the same day. Such a warning message would be extremely effective in helping to flag potential duplicate



For more information, contact the Office of Mental Retardation and Developmental Disabilities.



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payments before they occur and would be helpful to all agencies, not just to OMRDD. PaySR staff has informed OMRDD that this suggestion will not be adopted because the cost in terms of system performance outweighs the benefit that will be derived. Given OSC's findings and recommendations in this audit, OMRDD requested that OSC reconsider its position.

OMRDD further stated in the previous response that the fact that the DDSOs in the sample have internal controls in place which resulted in such a high accuracy rate for overtime payments, and the fact that a risk analysis/assessment would lead one to believe that additional internal controls are not necessary regarding this issue, we suggested, in the August 2, 2002 letter, changes to the language to reflect this. In its September 17, 2002 draft audit report, OSC, on page 3 stated that *"...OMRDD has not established the controls necessary to prevent and detect duplicate overtime payments..."* OMRDD again requests that OSC consider the following as a replacement for the above referenced sentence: *"We found that OMRDD has established the controls necessary to prevent duplicate overtime payments from occurring. However, as internal controls provide a reasonable assurance but do not guarantee 100 percent success, we found that OMRDD made a small amount of duplicate overtime payments to its employees at the DDSOs we visited."*

*
Note
1

Page 3 of the report, the second paragraph (suggested wording change):

"PaySR...We provided these results to OMRDD officials for their investigation and collection of improper overtime payments – for those potential duplicate payments that turn out to be actual overpayments"...

*
Note
2

Inaccurate Time and Attendance Records

OMRDD, in the August 2, 2002 response, accepted the recommendations of OSC on time and attendance sheets. We are concerned that the report failed to mention the TIME (Time Information Management Electronic) system that will assist OMRDD toward the ultimate goal of 100 percent accuracy in time and attendance sheets. The TIME system will include supervisory approval and directly feed time entry transactions to PaySR. In TIME, exceptions payments (overtime and extra-time, etc.) are produced by what is electronically recorded on a 14-day time sheet, and the result of what is on the time sheet will generate earn codes. Submission of overtime payments will be dependent on and consistent with the time sheet.

*
Note
3

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This system is currently scheduled for implementation on a pilot basis during FY 2003-04.

Reasons for Overtime

In the August 2, 2002 response, OMRDD explained that its residential programs are 24-hour/7 day a week operations. Overtime is an essential element in providing a quality program that meets and maintains federal Medicaid certification requirements, critical to protecting federal financial participation through Medicaid.

OMRDD further explained in the August response how overtime is utilized to "fill in the gaps" in staffing for both scheduled and unscheduled staff absences, and for one-to-one staffing coverage of individuals who require it. Enriched staffing is based on the clinical needs of consumers, needs that sometimes change without warning due to illness or other clinical issues. Scheduling existing staff to work overtime or extra time is often the most efficient way (or, in the case of anticipated or emergency consumer needs, the only way) to maintain staffing necessary to meet the requirements of quality service, of oversight agencies, court mandates (such as Willowbrook), clinical need, and most importantly, basic health and safety requirements for the individuals we serve. OMRDD gave the example of the peak staffing demand that occurs at a typical residence, for a few hours during the morning, as the individuals prepare for the day ahead and in the early evening, as individuals come home and the evening meal is prepared. Utilizing a combination of overtime, part-time employees and extra-time for these peak periods is often the most efficient use of personal service funding. Scheduling a full-time employee for these short periods would not optimally utilize limited staffing resources. This is the main reason that OMRDD has decided to monitor against the "bottom line" personal service allocation.

OMRDD's Review of Recommendations

OSC Recommendation #1

OMRDD concurs that duplicate overtime payments should be prevented and, if they occur, the money should and will be recovered. OMRDD will, as recommended by OSC, utilize the new PaySR query provided by OSC to further identify duplicate or inappropriate payments made in the future and will ensure full recovery of inappropriate payments. In addition, the PaySR Coordinator for OMRDD has distributed, to all DDSOs, information on generic queries that can be

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Modified to access specific coded transactions that would further refine and identify the categories of time worked.

OSC Recommendation #2

OMRDD will instruct DDSOs to review with staff the existing procedures for the proper completion of time and attendance documentation. OMRDD will also stress to the DDSOs the importance of reconciling time and attendance sheets with overtime authorizations and supervisor signatures and adhering to procedures to improve the accuracy rate.

To improve the accuracy of all time entry transactions, OMRDD, as previously described, is developing an automated time entry system, TIME. TIME will include supervisory approval and direct feed time-entry transactions to PaySR. The system is currently scheduled for implementation on a pilot basis during FY 2003-04.

Additionally, as stated in the August 2, 2002 response, in TIME, the employee will either (a) sign-off on a hard copy of the 14-day time sheet that will include all hours worked, or (b) sign-off electronically in the system. Either the supervisor or the Human Resources Office will sign-off electronically to verify the appropriateness of the payment. All electronic attestations will be accompanied by a signature line reflecting the user's name and the system date.

OSC Recommendation #3

Overtime utilization has been, and will continue to be, examined by OMRDD. We will be convening a group in the near future to review overtime procedures and recommend "best practices" to be utilized by all DDSOs. OMRDD will determine the value in increasing overtime allocations as part of the Best Practices review. If increasing the overtime allocation is determined to be beneficial, it will be reconsidered.

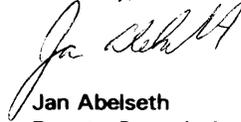
The Best Practices review would also include looking at the allocation questions, the deployment issues, reasons for incurring overtime and approval processes for overtime. The review will evaluate different practices at various DDSOs and will help determine which are successful and which practices are not successful. We hope to commence the Best Practices review during the 2002-03 fiscal year so that we can have recommendations available for implementation during 2003.

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As discussed earlier in this correspondence, we are suggesting that all comments provided in OMRDD's August 2, 2002 response be incorporated in the report. Specifically, OMRDD asked that suggested wording changes as detailed on page 1 and 2 of this letter be made to the report. OMRDD's position supporting these requested changes is, again, stated in the August response, and restated on page 2 of this letter.

Thank you for the opportunity to review the draft document. We anticipate that our suggestions will be carefully reviewed by OSC before the issuance of the final audit report.

Sincerely,



Jan Abelseth
Deputy Commissioner
Division of Quality Assurance

cc: Mr. Maul
Ms. DeSanto
Ms. Broderick
Mr. Kaplan
Mr. Pezzolla
Mr. Moran

State Comptroller's Notes

1. We modified the report to state there were weaknesses in OMRDD's controls for preventing and detecting duplicate overtime payments. However, it should be noted that the \$20,000 in duplicate overtime payments we identified in the 2000-2001 fiscal year were at only five of OMRDD's thirteen DDSOs. In the 2001-2002 fiscal year, we identified 721 potential duplicate overtime payments totaling approximately \$76,000. Potential duplicate overtime payments occurred at every DDSO, supporting the conclusion that there is need for improvements in controls.
2. We modified the report accordingly.
3. We modified the report to include information about the TIME system.