
**Alan G. Hevesi
COMPTROLLER**



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**OFFICE OF THE
NEW YORK STATE COMPTROLLER**

DIVISION OF STATE SERVICES

**DEPARTMENT OF
CORRECTIONAL SERVICES**

**WRITTEN SUPPORT OF
INTERNAL CONTROLS
OVER FINANCIAL
REPORTING OF PAYROLL
EXPENDITURES**

Report 2006-S-56

AUDIT OBJECTIVE

Our purpose was to find out whether the Department of Correctional Services (Department) has written support for internal controls over financial reporting of payroll expenditures. The PayServ system is the New York State Payroll System maintained by the Office of the State Comptroller (OSC). The Department enters payroll data into PayServ. This data is ultimately used for reporting payroll expenditures data to OSC through the Central Accounting System for use in the State's Comprehensive Annual Financial Report.

AUDIT RESULTS - SUMMARY

We found that in most areas, the Department has adequate written support over its internal controls for reporting payroll data. We believe these controls, as written, and if followed, should decrease the risk of significant misstatements in the financial information the Department reports to OSC for the State's Comprehensive Annual Financial Report. Documentation consisted of policies and procedures, Department directives, internal facility audits, training materials, email communications, and payroll manuals. Department officials provided ample current documentation to support four of the five components of internal control. We found that documentation supporting risk assessment over payroll was inadequate.

This report, dated October 17, 2006, is available on our website at://www.osc.state.ny.us.

Add or update your mailing list address by contacting us at: (518) 474-3271 or
Office of the State Comptroller
Division of State Services
State Audit Bureau
110 State Street, 11th Floor
Albany, NY 12236

BACKGROUND

Internal controls are a combination of attitudes, policies, and efforts of the people within an organization working together to achieve the organization's objectives and mission. A strong system of internal controls benefits all aspects of an organization's operations; it improves the reliability of organizational operations, provides confidence that an organization is using funds and resources efficiently and effectively, and provides comfort that assets and resources are well protected and managed. Written support of these controls is essential to an organization because it provides its employees with guidance on proper behavior, job expectations, and how to attain organizational objectives and goals. In addition, written support provides the public with a level of assurance that the financial information reported by the organization is accurate and reliable. All State agencies are required by law to put into practice a system of internal controls over their operations. Agency management is responsible for making sure this system of internal controls has been developed, implemented, and communicated throughout the organization.

The Department has about 32,000 employees. Most of them work at the Department's 69 correctional facilities located throughout the State. The Department paid over \$1 billion in personal service costs for the fiscal year ended March 31, 2006. Regular salaries (excluding overtime, hazard pay, and holiday pay) made up approximately 91 percent of that amount. Department staff enters data into PayServ, which generates payments for regular salaries. Changes, such as terminations or promotions, are also submitted directly to PayServ. In addition to hiring and terminating employees, each facility or office is responsible for entering its location's payroll data into PayServ. This

audit focused on the Department's written support for internal controls over the data entered into the PayServ system.

AUDIT FINDINGS AND RECOMMENDATION

Control Environment

Control environment is the attitude toward, and awareness of, internal control by management and employees of an organization. It is the product of management's philosophy, style and supportive attitude, as well as the competence, ethical values, integrity, and morale of the organization's people. Organization structure and accountability relationships are key factors in the control environment.

Department management provided us with adequate written support for the control environment over data entered into PayServ. The Department's mission statement, which is available on its website, provides staff with a sense of the Department's purpose and objectives. Employees are also given individual job descriptions that define the responsibilities and expectations of their position. In addition, the Department issued a directive pertaining specifically to compliance with the New York State Government Accountability Audit and Internal Control Act of 1987. The directive gives a definition of internal controls and cites examples of them. The directive further provides for a centralized internal control unit and Internal Control Committees for each individual facility. It also describes the Commissioner's and Internal Control Officer's (ICO's) responsibilities for internal controls. The Department held mandatory ethics training in October 2005 for all employees. Also, the Department held training on internal controls in June 2005 for facility stewards (business

officers). During this training, OSC's Standards for Internal Controls in New York State Government were handed out.

To promote accountability among Department staff, management uses annual employee performance evaluations. The evaluations gauge employee success in performing specific job related tasks, include supervisory comments, and assign a performance rating of satisfactory or unsatisfactory. In addition to promoting employee accountability, the annual performance evaluation supports an effort to ensure the overall competency of employees working within each unit.

We spoke with the Department's ICO who is also the Director of Internal Controls. The ICO dedicates all of her time to internal control and oversight. The Department's Bureau of Internal Controls (Bureau) is charged with creating, maintaining, updating, disseminating, and answering questions regarding Departmental directives. These directives, which are the policies and procedures issued by the Bureau, collectively form the system of internal controls for the Department. The ICO also coordinates training on internal controls, and prepares the annual Internal Control Certification and Summary according to the requirements of the State's Budget Policy and Reporting Manual, Item B-350. We found that the B-350 Certification and Summary for the fiscal year ended March 31, 2006 was completed in a thorough manner and filed timely.

Information and Communication

Communication is the exchange of useful information between and among people, inside and outside the organization, to support decisions and coordinate activities. Within an organization, important information should be clearly communicated in a timely manner to

management and employees who need it to help them carry out their every day jobs.

Department management provided us with adequate written support for information and communication as it relates to data entered into PayServ. Most information on policies and procedures is communicated through Department directives, which cover such areas as payroll processing, internal controls, staff responsibilities, ethics policies, and almost all other policies and procedures within the Department. The Bureau is responsible for creating, maintaining, updating, and disseminating all directives. Amendments and new directives are made available to staff Department-wide via mail and email. The Bureau also answers any questions or concerns relating to the directives. Payroll manuals that describe the payroll certification process, OSC bulletins, and email correspondence are also used to communicate pertinent information.

Risk Assessment

Risks that potentially threaten the success of an organization's mission and objectives should be identified and managed; they can be both internal (e.g., human error, fraud, or system breakdowns) and external (e.g., changes in legislation or natural disasters). An organization's management should seek to prevent risks from occurring. For each risk that is identified, management should evaluate the likelihood of occurrence and magnitude, and decide whether to accept the risk, reduce the risk to an acceptable level, or avoid the risk.

The Department did not provide adequate written support for risk assessment as it relates to data entered into PayServ. The Department performs extensive reviews of its control functions through several activities, including self-assessment audits, time and

attendance reviews, and financial audits. As part of these reviews, the Department verifies that required procedures, including those related to payroll, are being followed. There are several tools, including an internal audit guide, that are used to conduct the self-assessment audits. A time and attendance questionnaire also facilitates this process. Although these tools help department officials mitigate risks that have been identified previously, they do not enable the Department to identify new risks. There was no written current analysis of potential risks (addressing their likelihood of occurrence, levels of magnitude and acceptability) relating to the entry of data into PayServ. A written analysis of risks would help the Department determine if known risks (and the activities designed to minimize them) require further actions by management.

Recommendation

1. Perform and document a detailed risk assessment of the payroll process, including elements affecting financial reporting.

Control Activities

Control activities are policies, procedures and other safeguards an organization puts in place to help prevent or reduce risks that threaten the success of its objectives and mission. Management should establish control activities to aid in the efficient and effective success of the organization's objectives and mission.

Department management provided us with adequate written support for the control activities over data entered into PayServ. Department directives are the primary source for policies and procedures on all aspects of Department activity. They are amended, as needed, by the Bureau. Department officials

provided us with several directives pertaining to payroll processing, time and attendance, and internal control policies. They also provided us with payroll and accounting bulletins received from OSC that provide guidance on payroll processing.

Monitoring

Monitoring is the review of an organization's activities and/or transactions to assess its performance over time and to determine whether controls are effective. This is accomplished by putting procedures in place to monitor internal control and the success of organizational objectives.

Department management had adequate written support for monitoring payroll data entered into PayServ. The Department regularly performs internal audits and reviews of each of its facilities. These include time and attendance audits, financial audits, and self-assessment audits. The time and attendance reviews focus on payroll issues, generally ensuring that employees are paid correctly for hours worked. Financial audits and security staffing reviews cover multiple areas, including payroll. Financial audits are done every three years, and self-assessment audits are done every year. Time and attendance reviews are done every year, along with six-month follow-ups.

In addition, the Department uses the Daily Overtime Report and Daily Staff Utilization Report to identify potential errors in time and attendance data. To monitor staffing levels, the Office of Budget and Finance generates reports that compare actual staffing levels to budgeted levels. The Department also performs a yearly payout in which all employees are required to present photo identification and physically pick up and sign for their paychecks. This is done to ensure

that there is an employee associated with each check paid out.

In addition, the American Correctional Association (ACA) monitors the Department through its reviews of standards and practices at each facility every three years. The ACA administers a national voluntary accreditation program to promote proficiency in correctional facility management. Department facilities are required to submit an annual statement to ACA to certify their continued compliance with ACA standards. The facilities also must report on their progress in implementing action plans to address problems noted during reviews.

AUDIT SCOPE AND METHODOLOGY

We did our audit according to generally accepted government auditing standards. We audited the Department's written support for internal controls over its financial reporting of payroll information for the period April 1, 2005 through July 17, 2006. Internal controls are defined as the integration of the activities, plans, attitudes, policies, and efforts of the people of an organization working together to provide reasonable assurance the organization will achieve its objectives and mission. To do our objective, we interviewed Department officials and reviewed documentation, provided by Department personnel, that supports their system of internal controls over the financial reporting of payroll information.

In addition to being the State Auditor, the Comptroller performs certain other duties as the chief fiscal officer of New York State that have been mandated by statute and the State Constitution. The Division of State Services is responsible for several of these, including operation of the State's accounting system; preparation of the State's financial statements; and approval of State contracts, refunds, and other payments. In addition, the Comptroller

appoints members - some of whom have minority voting rights - to certain boards, commissions, and public authorities. These duties may be considered management functions for purposes of evaluating organizational independence under generally accepted government auditing standards. In our opinion, they do not affect our ability to conduct independent audits of program performance.

AUTHORITY

The audit was performed according to the State Comptroller's authority under Article V, Section 1, of the State Constitution; and Article II, Section 8, of the State Finance Law.

REPORTING REQUIREMENTS

We provided draft copies of the matters in this report to Department officials for their review and comment. We considered their comments in preparing this report. Department officials agree with our audit

recommendation and will begin to take the steps necessary to implement a risk assessment of their payroll process. A complete copy of the Department's response is included as Appendix A.

Within 90 days of the final release of this report, as required by Section 170 of the Executive Law, the Commissioner of the Department of Correctional Services 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 recommendation contained herein, and where not implemented, the reason therefor.

CONTRIBUTORS TO THE REPORT

Major contributors to this report include David R. Hancox, Brian Mason, Melissa Little, Andrew Fischler, Heather Pratt, Theresa Lawrence, Sharon Salembier, and Scott Heid.

APPENDIX A - AUDITEE RESPONSE



LUCIEN J. LECLAIRE, JR.
ACTING COMMISSIONER

STATE OF NEW YORK
DEPARTMENT OF CORRECTIONAL SERVICES
THE HARRIMAN STATE CAMPUS
1220 WASHINGTON AVENUE
ALBANY, N.Y. 12226-2050

September 18, 2006

Mr. David R. Hancox
Audit Director
Office of the State Comptroller
110 State Street
Albany, New York 12236

Re: Draft Audit Report 2006-S-56
Written Support of Internal Controls
over Financial Reporting of Payroll
Expenditures

Dear Mr. Hancox:

In accordance with Section 170 of the Executive Law and in response to your correspondence of August 22, 2006, attached is the Department's reply to the above-referenced draft audit report.

We have complied with the provisions of the Budget Policy and Reporting Manual, Item B-410 by forwarding two copies of this response to the Division of the Budget on September 11, 2006.

Sincerely,

A handwritten signature in black ink, appearing to read 'Lucien J. Leclaire, Jr.', written in a cursive style.

Lucien J. Leclaire, Jr.
Acting Commissioner

Attachment



LUCIEN J. LECLAIRE, JR.
ACTING COMMISSIONER

STATE OF NEW YORK
DEPARTMENT OF CORRECTIONAL SERVICES
THE HARRIMAN STATE CAMPUS
1220 WASHINGTON AVENUE
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DEPUTY COMMISSIONER
ADMINISTRATIVE SERVICES

September 5, 2006

Mr. David R. Hancox
Audit Director
Office of the State Comptroller
110 State Street
Albany, New York 12236

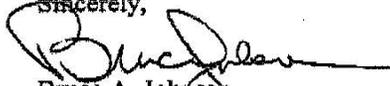
Dear Mr. Hancox:

This is in response to your office's draft audit of written support of internal controls over financial reporting of payroll expenditures (Report 2006-S-56).

We agree with the recommendation made by the auditors and will begin to take the steps necessary to implement a risk assessment of our payroll process.

Thank you for the opportunity to comment on the audit report and for the positive comments on our internal controls over reporting payroll data.

Sincerely,



Bruce A. Johnson
Director of Budget & Finance