



STATE OF NEW YORK
OFFICE OF THE STATE COMPTROLLER

August 29, 2007

Ms. Barbara G. Billet
Acting Commissioner
Department of Taxation and Finance
W.A. Harriman Campus
Albany, NY 12227

Re: Controls over Selected Aspects of Payroll
Report 2007-S-55

Dear Ms. Billet:

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 the Department of Taxation and Finance's (Department) controls over selected payroll practices for the period April 1, 2005 through March 31, 2007.

A. Background

Payroll represents a significant expenditure of State resources. Annual payroll for New York State is \$12.6 billion. The New York State Payroll system is maintained by the Office of the State Comptroller's Bureau of State Payroll Services. Agencies submit payroll transactions to State Payroll Services where paychecks are calculated, withholding taxes are determined and net checks are produced. The accuracy of the payroll system relies on each agency having appropriate controls over its payroll transactions.

State Payroll Services issues payroll bulletins that provide New York State agencies with information and guidance on proper payroll practices. For example, Payroll Bulletin No. 456 provides procedures to follow when a payroll check is undeliverable because the agency is unable to locate the employee. Payroll Bulletin No. 480 provides guidelines for the direct deposit program. Direct deposit allows the automatic deposit of a salary check into a bank or credit union account. It is the preferred method for paying New York State employees. Payroll Bulletin No. 470 provides policies and procedures for the recovery of overpayments made to New York State employees. Overpayments generally result when agencies do not follow Payroll Bulletins or do not establish appropriate payroll controls.

The Department administers the State's tax laws and serves as the State's general collection agency. Annually the Department collects and accounts for over \$51 billion in State tax revenue and over \$33 billion in local taxes on behalf of municipalities. To accomplish its mission the Department employs about 4,800 employees. The Department expended \$218,401,421 and \$225,379,871 in payroll costs for fiscal years ended March 31, 2006 and March 31, 2007, respectively.

At times, in order to meet the Department's workload requirements overtime work may be needed. If an employee is overtime eligible they are compensated at one and one-half their rate of pay for hours worked in excess of 40 hours per week. According to the Department, overtime for fiscal year ended March 31, 2007 amounted to \$3,055,453. Eligible Department employees also receive location pay, a negotiated benefit that provides additional compensation to an employee whose official station is located in New York City or in the counties of Nassau, Rockland, Suffolk, Westchester, Orange, Dutchess or Putnam. The State's negotiated benefits do not provide part-time and hourly employees with location pay.

B. Audit Scope, Objective and Methodology

The objective of our audit was to determine if the Department has adequate controls over selected aspects of payroll including undelivered payroll checks, overtime, location pay, direct deposits, and overpayments. Our audit objective did not include examining time and attendance issues at the Department. Our audit covered the period April 1, 2005 through March 31, 2007.

We conducted our audit according to generally accepted government auditing standards. To accomplish our audit objective, we reviewed related Payroll Bulletins issued by State Payroll Services. We interviewed Department officials regarding controls over their payroll practices. We reviewed undelivered payroll checks on hand at the Department; we analyzed data from the State Payroll system to determine if only eligible Department employees received overtime compensation. Additionally, to determine if overtime was approved, we selected a sample of 50 overtime records to determine if overtime hours worked received supervisory approval as required. We used mapping software to identify whether any ineligible employees received location pay; we selected a sample of 50 direct deposit files to review for appropriate authorizations and approvals; we reviewed a sample of 50 appointments and separations for timeliness and accuracy; we also reviewed any overpayments made to employees and their subsequent recovery.

In addition to being the State Auditor, the Comptroller performs certain other constitutionally and statutorily mandated duties as the chief fiscal officer of New York State. These include operating the State's accounting system; preparing the State's financial statements; and approving 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, these functions do not affect our ability to conduct independent audits of program performance.

C. Results of Audit

For the aspects of payroll that we reviewed, we found that the Department established and adhered to adequate controls that were in accordance with Payroll Bulletins issued by State Payroll Services. At the start of fieldwork the Department had no payroll checks on hand for more than 30 days. Only eligible employees received overtime compensation with appropriate supervisory approval. During our audit period only eligible Department employees received location pay. We found that the Department has established controls over the direct deposits. We also found that payroll transactions, such as appointments and separations, were made timely and accurately. The Department is actively pursuing collection of overpayments in all but six cases totaling \$2,123. Because of the relatively small dollar value, the Department did not refer these overpayments to the Office of the Attorney General for collection.

We provided Department officials with draft copies of this report for their review and comment. Their comments have been considered in the preparation of this report, and are included as Appendix A.

Major contributors to the report include Kenneth I. Shulman, Arthur F. Smith, Cynthia A. Herubin, Brianna M. Redmond and Holly L. Thornton.

We wish to thank Department management and staff for the courtesies and cooperation extended to our examiners during the audit.

Very truly yours,

Steven E. Sossei
Audit Director

cc: Lisa Ng, Division of the Budget
James Brunt, Taxation and Finance