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STATE COMPTROLLER



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ALBANY, NEW YORK 12236

STATE OF NEW YORK  
OFFICE OF THE STATE  
COMPTROLLER

November 15, 1999

Mr. Carl T. Hayden  
Chancellor of the Board of Regents  
The University of the State of New York  
State Education Building  
Albany, NY 12234

Re: Selected Payroll Controls for the  
Rome School for the Deaf and the  
Batavia School for the Blind  
Report 98-S-77

Dear Mr. Hayden:

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 payroll controls at the State Education Department's (Department) School for the Deaf and its School for the Blind which are located in Rome and Batavia New York, respectively. Our audit covered the period September 11, 1995 through February 25, 1999.

**A. Background**

The Rome School for the Deaf includes dormitory facilities, academic facilities and administrative offices and provides education and life skills training for approximately 110 deaf students who are between the ages of 3 and 21. The School serves 31 counties and 110 school districts in central and northern New York. More than half of the students are housed on campus during the week. The Rome School for the Deaf employs 136 staff, 60 percent of whom are certified teachers, child care workers, specialists, or medical support personnel.

The Batavia School for the Blind serves approximately 63 enrolled children who are visually impaired or blind and who may have multiple disabilities. The School provides education, residential and daily living skills so that the children can function with increased independence within their post-school environments. Of the 63 enrolled children, 15 resided at the School throughout the week, 38 resided at the School for five days per week and ten were enrolled in the day program. The Batavia School for the Blind employs 133 permanent and 46 temporary employees.

The Rome School for the Deaf and the Batavia School for the Blind have separate administrations, but share the same business manager who is responsible for payroll and other financial-related activities at the Schools. As a result, payroll controls and procedures for the two Schools are similar. For each School, the payroll is processed based upon employee time sheets and other forms which authorize changes to the payroll. Until recently, forms authorizing changes to the payroll were forwarded to the Office of the State Comptroller (OSC) for data entry into the State's legacy Payroll System. In November 1998, OSC converted both Schools' payroll processing to the newly designed statewide payroll processing system known as PaySR. To process payroll changes in PaySR, staff must data enter payroll change transactions directly into the new system. Supporting payroll change forms are no longer sent to OSC for processing. For fiscal year 1998-99, payroll costs totaled approximately \$5 million at the Rome School for the Deaf and about \$7 million at the Batavia School for the Blind. Personal service costs constitute most of the expenses for both Schools. In September of 1997 we received allegations of time and attendance abuses occurring over a two year period at the Rome School for the Deaf. When we initiated our audit, these allegations had already been forwarded to the Rome School for the Deaf and the School was following up on them.

## **B. Audit Scope, Objectives and Methodology**

We audited controls for recording employee time and attendance, limiting access to PaySR and verifying PaySR transactions for the Rome School for the Deaf and the Batavia School for the Blind for the period September 11, 1995 through February 25, 1999. The objectives of our financial-related audit were to determine whether these controls provided adequate assurances that employee absences are correctly charged to their leave accruals and that the Schools' payrolls are authorized and accurate. To accomplish these objectives we tested payroll additions, deletions, overtime and adjustments for a judgment sample of employees. As part of this test, we traced the payroll transactions for the sample of employees to supporting records such as time sheets, payroll authorization forms, and employment appointment letters. We also evaluated whether programmed access to PaySR was appropriate for employees' job duties and we assessed the adequacy of supervisors' records maintained in support of their employees approved and unapproved absences. We followed up on the allegations of time and attendance abuse at the Rome School for the Deaf.

We conducted our audit in accordance with generally accepted government auditing standards. Such standards require that we plan and perform our audit to adequately access those operations of the two Schools that are included within our audit scope. Further, these standards require that we review and report on those laws, rules and regulations that are relevant to the Schools' operations included in our 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 considered necessary in the circumstances. An audit also includes assessing the estimates, judgments and decisions made by 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 activities we have identified through a preliminary survey as

having the greatest probability of needing improvement. Consequently, by design, finite audit resources are used to identify where and how improvement 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 activities that may be functioning properly.

### **C. Internal Control and Compliance Summary**

Our evaluation of the internal control structure for the payroll functions at the two Schools identified weaknesses in procedures for maintaining time and attendance records, limiting access to PaySR, and for verifying PaySR transactions. These matters are discussed in detail in the remainder of this report.

### **D. Results of Audit**

Based upon our audit tests of sampled payroll transactions and related supporting documentation it appears that payrolls processed for both Schools are accurate and authorized. However, controls for verifying that payroll transactions are correct and authorized at the time the biweekly payroll is certified need to be improved. Also, the business manager’s access to PaySR conflicts with necessary separation of duties. In addition, some improvements are needed in record keeping for employee absences. Correcting these problems should provide adequate ongoing assurances that the Schools’ payrolls are accurate and authorized and that employees’ leave accruals are properly charged for absences. We were unable to determine whether the allegations of time and attendance abuse at the Rome School for the Deaf had merit because supervisory records of approved and unapproved employee absences were not available for the periods in question. However, Department and local officials performed an investigation of the allegations and determined that there were only marginal, inconclusive discrepancies in employee accrual records.

### **E. Time and Attendance Controls**

Volume XI, Section 3.0100 of the New York State Accounting System User Procedure Manual requires the maintenance of complete and accurate records of employees’ attendance and leave accruals. For example, supervisors should verify that each of their employee’s leave accruals are correctly recorded by comparing such information with applicable daily records of attendance/absence. For the Rome School for the Deaf, we selected a judgment sample of 16 employees and compared 80 of their time sheets for fiscal year 1998-99 to available supporting records of attendance maintained by their supervisors. We verified the accuracy of 16 of these 80 time sheets. We could not, however, conclude on the correctness of the remaining time sheets because supervisors did not establish and/or did not retain documentation constituting their record of employee absences.

For example, when we surveyed the time and attendance control practices and procedures of the Elementary Education, Secondary Education, Maintenance, Housekeeping and Administration departments at the Rome School for the Deaf we found that supervisors in the Administration and

the Maintenance departments relied solely on written leave requests when reviewing employees' time sheets to determine proper use of leave accruals. These supervisors did not maintain separate records to account for any instances when employees were absent without having filed a request to be absent. For example, no records were maintained to denote unexpected sick leave or tardiness. In addition, supervisors in departments that did establish separate supporting records of time and attendance had retention requirements for these records ranging from one month to one year. Our testing at the Batavia School for the Blind showed similar weaknesses. These weaknesses diminished assurances that employee absences were appropriately charged to leave accruals and precluded our follow up on the allegations of time and attendance abuse at the Rome School for the Deaf. However, Department and local officials performed an investigation of these allegations and determined that there were only marginal, inconclusive discrepancies in employee accrual records.

We recommend that the Department work with the Schools to establish appropriate supporting records for supervisors to maintain to account for the time and attendance of their employees. In addition, we recommend that a standard retention period for these records be set. Strengthening controls in this manner should help to provide appropriate assurances that leave accruals are being appropriately charged and that time and attendance records are correct.

**F. Access and Verification Controls**

Prior to PaySR, the business manager signed off on a summary document containing the dollar value of total adjustments to the biweekly payroll which was to be processed by the legacy OSC Payroll System. In addition, he had at his disposal the Schools' payroll change forms in support of the total adjustments. Under PaySR, the manager still must perform a certification of the total adjustments to the biweekly payroll. However, the changes are now data entered directly into PaySR by staff and the business manager has not established an adequate control record for his use to independently compare against the PaySR transactions. Consequently, the ability to adequately verify the appropriateness of the payroll being certified to is impeded. After the payroll is processed, the staff who enter transactions into PaySR perform a review to verify the propriety of the payroll. This is an appropriate step to take, but it does not supplant the need for an adequate independent check on payroll transactions at the time the payroll is being certified.

Officials at the Schools explained that staff have received OSC training in retrieving standard reports from PaySR and in performing custom queries of PaySR data. However, at the time our audit, the staff were not proficient enough to create ad hoc reports from PaySR to establish a control record to account for the data entered transactions. The Department should work with the business manager and his staff to design an appropriate control record from PaySR ad hoc reporting.

We found that the business manager's access capability to PaySR was that of a System's "Super-User." Accordingly, the manager could update all employee related information and perform all payroll change transactions including additions, deletions and adjustments. As the individual responsible for authorizing payroll changes and certifying the payroll, the business manager should not have the capabilities afforded by the "Super-User." Providing such capability

unnecessarily expands PaySR access and combines the incompatible duties of authorizing and processing transactions. Therefore, there is increased risk for intentional or unintentional errors in the payroll.

### **Recommendations**

1. *Determine and establish the appropriate supporting records for supervisors to maintain for the daily time and attendance of their employees and specify the necessary retention requirements for these records.*
2. *Design appropriate ad hoc reports from PaySR to establish a transaction control record for use to ensure that the certified biweekly payroll includes all and only authorized transactions.*
3. *Rescind the "Super-User" PaySR capability for the business manager and advise OSC so that this change can be processed.*

A draft copy of this report was provided to Department officials for their review and comments. Department officials concur with each of our recommendations and indicate that actions have been or will be taken to implement the recommendations. A copy of their response is included as Appendix A.

Within 90 days after the final release of this report, as required by Section 170 of the Executive Law, the Commissioner of the Education Department 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 Robert Lindholm, Walter Mendelson, Arthur Smith, Donald Hespelt, Mark Radley, Joanne Kavich and Paul Bachman.

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

Very truly yours,

Jerry Barber  
Audit Director

cc: Charles Conaway



THE STATE EDUCATION DEPARTMENT / THE UNIVERSITY OF THE STATE OF NEW YORK / ALBANY, NY 12234

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October 15, 1999

Mr. Jerry Barber  
Audit Director  
New York State Office of the State Comptroller  
A. E. Smith State Office Building  
Albany, New York 12236

RE: Selected Payroll Controls for the  
Rome School for the Deaf and the  
Batavia School for the Blind  
Report 98-S-77

Dear Mr. Barber:

In accordance with your draft audit report (referenced above), the following response is presented for inclusion as an appendix to your final report.

**Response**

1. Determine and establish the appropriate supporting records for supervisors to maintain for the daily time and attendance of their employees and specify the necessary retention requirements for these records.

We concur. Both schools will establish and implement supporting daily time and attendance records of employees, including retention period in a manner consistent with State Education Department policy.

2. Design appropriate ad hoc reports from PaySR to establish a transaction control record for use to ensure that the certified biweekly payroll includes all and only authorized transactions.

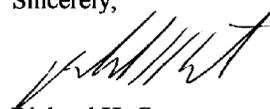
We concur. The schools' business manager will work with the State Education Department and Office of the State Comptroller PaySR staff to design appropriate PaySR ad hoc reports to ensure that the certified biweekly payroll includes all and only authorized transfers.

3. Rescind the "Super-User" PaySR capability for the business manager and advise OSC so that this change can be processed.

We concur. The recommendation has been implemented. The Office of the State Comptroller has confirmed that the business manager's status for both schools is now "View Only."

If anything additional is needed, please contact Rita Levay at (518) 486-7584.

Sincerely,



Richard H. Cate

cc: Commissioner Mills  
Thomas Sheldon  
Rita Levay