

H. CARL McCALL  
STATE COMPTROLLER



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

STATE OF NEW YORK  
**OFFICE OF THE STATE COMPTROLLER**

December 13, 2000

Mr. Peter Keitel  
President  
Higher Education Services Corporation  
One Commerce Plaza  
Albany, New York 12255

Re: Internal Controls Over the Quick Pay  
Voucher Process  
Report 2000-S-39

Dear Mr. Keitel:

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 internal controls established by the Higher Education Services Corporation (HESC) over its Quick Pay voucher process for the period April 1, 1999 through March 31, 2000.

**A. Background**

Quick Pay is a feature of the Office of the State Comptroller's (OSC) Central Accounting System (CAS). With Quick Pay, designated HESC staff use online data entry to process certain voucher payments directly into CAS without the need to submit documentation to OSC. After the vouchers are entered, certain other HESC staff certify them online for CAS payment. OSC then produces a payment check within one business day. If OSC finds that an agency has misused Quick Pay, it can reduce or terminate this feature to the agency. Accordingly, Quick Pay maintains internal control, minimizes paper processing and makes timely payments.

During the period April 1, 1999 through March 31, 2000, OSC authorized HESC to use Quick Pay to process any vendor payments and any employee travel reimbursement that did not exceed a \$2,500 threshold amount. For the year ended March 31, 2000, HESC processed 29,753 vouchers totaling \$685,884,599, of which it used Quick Pay to process 4,306 of these vouchers totaling \$2,023,682.

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

We audited HESC's internal controls over its Quick Pay voucher processing for the period April 1, 1999 to March 31, 2000. The objectives of our financial related audit were to determine whether HESC's internal controls were adequate to safeguard payments and were consistent with OSC guidance and expectations. To accomplish our objectives we evaluated the control environment over Quick Pay, reviewed applicable laws, regulations policies and procedures, interviewed OSC and HESC management and staff, examined pertinent records and supporting documentation, and tested a judgmental sample of 45 vendor and 30 travel vouchers processed during our audit period. Our judgmental sample was selected based on high dollar amounts processed and transactions that we believed were vulnerable to split ordering.

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 operations that are included in our scope. Further, these standards require that we understand HESC's internal control structure and compliance with those laws, rules and regulations that are relevant to our audit scope. An audit includes examining, on a test basis, evidence supporting transactions recorded in the accounting 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 used a risk-based approach when selecting activities to be audited. We therefore focus 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 improvements can be made. We devote little audit effort 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**

Sections E and F of this report identify our internal control and compliance findings under the headings of "Policies and Procedures Manual for Quick Pay" and "Tests of Transactions."

**D. Results of Audit**

Generally we found adequate Quick Pay internal controls were established and adhered to during the audit period. We found, however, that HESC has not established a written policies and procedures manual for Quick Pay. Also, we found a limited number of Quick Pay transactions where certain control requirements were not met.

**E. Policies and Procedures Manual for Quick Pay**

Pursuant to OSC Bulletin G-54, one characteristic of good internal control is written procedures which sets forth job descriptions, duties and responsibilities. In addition, the New York State Accounting System User Procedure Manual states that the authority and responsibility of all expenditures should be set forth in a general policy manual developed under the supervision of the agency head. HESC's Internal Audit Unit had previously pointed out the need for HESC to provide a written policies and procedures manual over its disbursement activities in its last two annual audit reports.

HESC officials had previously indicated that they completed a draft outline of the basic elements of a Quick Pay voucher processing manual and that a formal version would be completed by December 2000. We determined during the audit, however, that the manual has not been started. In response, officials indicated that they have been hindered by insufficient manpower to complete this task. We believe that a manual is needed to assure that staff accomplish key duties as intended.

**F. Tests of Transactions**

HESC procedures require that the Chief Financial Officer approve each voucher for payment. This can be accomplished using either a purchase order or an internal form called a "Payment Authorization Form." Our review of 45 vendor payment vouchers identified two where neither form was used to indicate the appropriate approval. In addition, we found three vendor payment vouchers that did not have the proper 1099 coding as required by OSC Bulletin G-132, and two vendor payment vouchers that were not properly cancelled as required by the New York State Accounting System User Procedures Manual. We recommend that HESC emphasize the need for compliance with all voucher processing controls and monitor transactions to determine that errors such as these are not repeated.

**Recommendations**

1. *Expedite completing a policies and procedures manual for Quick Pay voucher processing.*
2. *Reemphasize the need to comply with procedures to avoid the errors pointed out in this report. Monitor that errors are not repeated.*

A draft copy of this report was provided to HESC officials for their review and comment. Their comments have been considered in the preparation of this report and are included as Appendix A. Officials agree with our recommendations and indicate that they are in the process of preparing a procedures manual and implementing guidelines that should correct the errors we noted.

Within 90 days after the final release of this report, as required by Section 170 of the Executive Law, the President of HESC shall report to the Governor, the State Comptroller, and 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 Ken Shulman, Art Smith, Don Wilson, Lynn Schoonbeek and Marti Madory.

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

Very truly yours,

Jerry Barber  
Audit Director

cc: Charles Conaway



GEORGE E. PATAKI  
GOVERNOR

NEW YORK STATE  
HIGHER EDUCATION SERVICES CORPORATION  
99 WASHINGTON AVENUE  
ALBANY, NEW YORK 12255  
WWW.HESC.COM

PETER J. KEITEL  
PRESIDENT

518/473-2523 Fax 518/474-5693  
rbutler@hesc.com

November 29, 2000

Mr. Jerry Barber  
Audit Director  
Office of the State Comptroller  
Division of Management Audit  
A.E. Smith Building, 13<sup>th</sup> Floor  
Albany, N.Y. 12236

Dear Mr. Barber:

This is to provide a response to your audit of Higher Education Services Corporation's (HESC) Quick Pay Voucher Processing System.

Recognizing that HESC does not have adequate written policies and procedures for our use of the Quick Pay System, we have secured Procedures from another State agency which has recently passed an audit regarding their use of the system. We are incorporating what is appropriate into our system and addressing any areas which are particular to HESC, if any. It is anticipated that with the imminent hiring of additional staff in our Central Accounting Unit, the manual will be completed during December 2000. Further, it is anticipated that with the addition of that staff, clerical errors and separation of staff duties as noted in the audit can be addressed.

I would like to thank you and your staff for the time and energy given to this audit.

Sincerely,

Robert E. Butler  
Chief Financial Officer