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**OFFICE OF THE STATE COMPTROLLER**

November 20, 2003

Mr. Joel I. Klein  
Chancellor  
New York City Department of Education  
52 Chambers Street  
New York, New York 10007

Re: Report 2002-F-53

Dear Mr. Klein:

Pursuant to the State Comptroller's authority as set forth in Article V, Section 1 of the State Constitution, and Article III, Section 33 of the General Municipal Law, we have reviewed the actions taken by officials of the New York City Department of Education (formerly New York City Board of Education) as of October 15, 2003 to implement the recommendations contained in our audit report, *New York City Board of Education – Central Office Financial Management Centers: Payroll and Inventory Controls* (Report 2000-N-11). Our audit report, which was issued on September 19, 2001, addressed the payroll and inventory controls for the Central Office Financial Management Centers (FMCs) of the New York City Department of Education (Department).

**Background**

The Department operates more than 1,100 public schools throughout the five boroughs of New York City. To administer the school system, the Department uses FMCs, which represent distinct organizational units that report either to an Executive Director or Deputy Chancellor. The Department's Manual of Standard Operating Procedures (Manual) guides the FMCs payroll and inventory operations. Administrative reorganizations are scheduled to be implemented for the 2003-04 school year. These reorganizations will alter the number and duties of the FMC's.

**Summary Conclusions**

In our prior audit, we found that the FMCs did not utilize an adequate risk management process for payroll and inventory controls. We concluded that this may have contributed to deficiencies in inventory and payroll control that we identified in our

review of operations at eight FMCS. We found that the deficiencies in the payroll area presented opportunities for inappropriate payments to occur. The deficiencies in equipment and fixed asset inventory controls could result in undetected loss or misplacement of costly assets.

In our follow-up review, we found that the Department has made progress in implementing the recommendations contained in our prior report. Department officials have addressed a significant number of these issues and have taken steps to improve payroll and inventory controls. We found that Department inventory procedures still need to be improved.

### **Summary of Status of Prior Audit Recommendations**

Of the 11 prior audit recommendations, Department officials have implemented 6 recommendations, partially implemented 3 recommendations and have not implemented 2 recommendations.

### **Follow-up Observations**

#### **Recommendation 1**

*Expedite the establishment of an effective risk assessment process that the Financial Management Centers can follow to attain their control objectives, including those for payroll and inventory.*

Status - Not Implemented

Agency Action - In response to our draft report, the Department's Division of Financial Operations officials stated that they would be implementing a risk-based management approach throughout the organization. When we inquired as to the status of this, we were advised that currently the Department has no specific document that would detail a risk assessment process. No definitive action has been taken to implement this recommendation.

#### **Recommendation 2**

*Remove the names of former employees from the payroll in a timely manner.*

Status - Implemented

Agency Action - The Department is in the process of implementing an automated timekeeping tracking and time record submission system known as Cybershift. Used properly, the new tracking system should ensure that payroll changes are processed timely. Our review of the timeliness of removing the names of former employees from the payroll revealed that this now is being done timely.

### **Recommendation 3**

*Match the Social Security numbers listed for employees in Financial Management Center records with the numbers listed for the same individuals in Social Security Administration records.*

Status - Implemented

Agency Action - The Department's Division of Human Resources now receives a monthly update of deceased persons from the Social Security Administration (SSA) for cross-verification with Department records. Additionally, as new employees are hired, their Social Security numbers are verified with the SSA for accuracy. The Department now matches payroll social security numbers with the SSA records annually.

### **Recommendation 4**

*Determine why the names of two current employees of Financial Management Centers are listed among the deceased in Social Security Administration records.*

Status- Implemented

Agency Action - The Department's Division of Human Resources verified that these employees were using correct Social Security numbers and the records of the Social Security Administration have been updated.

### **Recommendation 5**

*Take steps to recover overpayments from the estates of deceased Financial Management Center employees.*

Status - Partially Implemented

Agency Action - When the Department determines that payments were issued to deceased individuals, we noted that attempts were made to contact the estate of the deceased employees to recover the funds. We also noted that after these attempts were unsuccessful the cases were reportedly referred to the New York City Corporation Counsel for collection. However, the Department did not produce documentation that the two specific overpayments, totaling \$5,842, that were outstanding at the time of our original report were referred to the Corporation Counsel.

### **Recommendation 6**

*Verify that Financial Management Center staff are familiar with and are adhering to procedures approved for the handling of undistributed paychecks.*

Status - Implemented

Agency Action - Memos were sent to all FMCs reminding staff of proper operating procedures concerning the handling of undistributed paychecks and other important payroll functions. This was done most recently in May 2003. In addition, the Department prepared over 1,500 copies of a training video entitled, "The New York City Department of Education, Office of the Auditor General, Fiscal and Operational Management Training Program." This video was distributed throughout the Department and is used in training staff in proper payroll procedures. We reviewed this video and determined that it was well prepared and instructed staff in the handling of undistributed checks. The Manual is also available to employees through the Department's web-site on the Intranet.

### **Recommendation 7**

*Require Financial Management Centers to develop a tracking system that will ensure the submission of accurate time records in a timely manner.*

Status - Partially Implemented

Agency Action - The Department is implementing an automated timekeeping tracking and time record submission system known as Cybershift. This system accounts for staff attendance, including FMC staff, electronically and time sheets are filed utilizing computer technology. Used properly, the new tracking system will ensure the submission of accurate time records in a timely manner and is the Department's solution to correcting the deficiencies cited in our prior audit. Cybershift has been used by some departments concurrently with the paper timesheets since May 2002 and is planned to be used exclusively after January 2004.

### **Recommendation 8**

*Establish a standardized timekeeping system for all Financial Management Center employees.*

Status - Implemented

Agency Action - As described in the agency action for recommendation 7, Cybershift is the new standardized timekeeping system for all employees, including FMC staff.

### **Recommendation 9**

*Verify that FMCs are performing all required annual physical inventories; maintaining accurate and complete databases of inventory items that comply with Board requirements; and are permanently tagging or identifying required items as the property of the New York City Board of Education.*

Status - Not Implemented

Agency Action - While the Department contracted with a consultant to coordinate inventory procedures, an annual physical inventory of equipment has not been conducted. The Department has instituted new procedures to update the inventory records for new purchases, however, information on past purchases is not complete.

### **Recommendation 10**

*Verify that the Standard Operating Procedures for FMCs are being disseminated to all appropriate staff, and that the staff is becoming familiar with the procedures they are supposed to follow. Provide training as necessary.*

Status - Implemented

Agency Action - The Department prepared a training video and compact disk that was distributed to the FMCs and is used in training staff in proper inventory procedures. We reviewed this video and determined that it was properly prepared and was instructive. In addition, the Manual regarding inventories is available to employees through the Department's web-site on the Intranet.

### **Recommendation 11**

*Verify that fixed assets are reported properly and on a timely basis.*

Status - Partially Implemented

Agency Action - We noted that greater care is now taken in accounting for new purchases of fixed assets. In addition, each October, lists are now sent to the FMCs to verify the fixed assets on hand, as required. However, we noted that the system is unable to identify past items because descriptions of items are too vague. Only new purchases are currently being reported and entered into the system.

Major contributors to this report were Russell Budnick, Joan Williams, Tom Trypuc and Mike Solomon.

We would appreciate your response to this report within 30 days, indicating any actions planned to address the unresolved issues discussed in this report. We also thank the management and staff of the Department of Education for the courtesies and cooperation extended to our auditors during this review.

Very truly yours,

Steven E. Sossei  
Audit Director

cc: Andrew Levine  
Nader Francis