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**Alan G. Hevesi  
COMPTROLLER**



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**OFFICE OF THE  
NEW YORK STATE COMPTROLLER**

**DIVISION OF STATE SERVICES**

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**OFFICE OF COURT  
ADMINISTRATION**

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

**Report 2006-S-55**

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## AUDIT OBJECTIVE

Our purpose was to find out whether the Office of Court Administration (OCA) has written support for internal controls over its Central Payroll system. This system produces the financial information for reporting payroll expenditures to the Office of the State Comptroller (OSC) for use in the State's Comprehensive Annual Financial Report.

## AUDIT RESULTS - SUMMARY

We found that OCA has adequate written support over the internal controls for its Central Payroll system and its Division of Financial Management. We believe that these controls, as written, and if followed, should minimize the risk of significant misstatements in the financial information that OCA reports to OSC for the State's Comprehensive Annual Financial Report. OCA officials provided ample current documentation to support each of the five components of internal control. Documentation consisted of mission and goals statements, performance evaluations, policies and procedures, workflows, internal and external reports, minutes from meetings among agency personnel, and self-assessments.

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, 11<sup>th</sup> 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 for 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.

Article VI of the State Constitution establishes the Unified Court System (UCS) as part of the Judiciary branch of the State of New York. Article VI also defines organization and jurisdiction of the courts and provides for the administrative supervision of the Courts by the Chief Administrator on behalf of the Chief Judge of the State of New York. The New York State court system is one of the largest and busiest in the nation. It consists of approximately 1,300 State-paid judges and approximately 15,000 non-judicial employees. OCA is the administrative arm of

the court system, established by and functioning under the authority of the Chief Administrative Judge. The Chief Administrative Judge, on behalf of the Chief Judge, is responsible for supervising and administering the general operations of the trial courts. OCA's total payroll for the year ending March 31, 2005 was over \$1.2 billion. Its Central Payroll, which handles 21 regional offices within the UCS, comprises 78% of OCA's total payroll (or over \$938 million for the 2004-05 year). OCA's Central Payroll staff enters data into the PayServ system (the State's comprehensive standardized payroll system) which generates payments for regular salaries. Changes, such as terminations or promotions, are also submitted directly to PayServ. This audit focused on OCA's written support for internal controls over the data entered into PayServ.

## AUDIT FINDINGS

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### *Control Environment*

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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.

OCA management provided us with adequate written support for the control environment over its Central Payroll system. Management's attitude toward internal control is demonstrated by the Internal

Control Guidelines issued by the UCS to its employees. The guidelines stress the importance of internal controls, define them, and include a statement of support from the Chief Judge for OCA's overall internal control program. The guidelines also note the importance of all employees' participation in making the program effective. Furthermore, OCA developed formal mission and goals statements. These statements provide OCA employees with a sense of direction and purpose in carrying out their job duties.

Employees are also given individual job descriptions that define the responsibilities and expectations of their position. These descriptions allow employees to understand their roles and responsibilities in meeting OCA's mission. Also, OCA uses a performance program to evaluate employees' actual performance against standards for expected performance. This program helps OCA to ensure the competency of its staff. Furthermore, employee morale is supported through OCA's Performance Merit Award and Quality Service Award programs. These programs provide employees with a sense that their contributions to the organization are valued and recognized.

We also found that the OCA's Internal Control Officer (ICO) is aware of internal controls and their importance to the organization. OCA's ICO reports to the Chief Administrative Judge. The ICO administers OCA's self-assessment program. These self-assessments are completed by several operating units throughout the UCS, and they identify the key controls in place and assess whether those control are adequate. In addition, we determined that the ICO was familiar with OSC's Standards for Internal Controls for New York State Government.

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*Information and Communication*

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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 daily job functions.

OCA provided us with adequate written support for communication and information over its Central Payroll processing and general OCA activities. Management has developed an employee handbook that communicates all the organizational policies and procedures employees must follow. Such policies include time and attendance; email use; computer use; and employee rights and benefits. Also, OCA utilizes job descriptions to communicate the roles and responsibilities for each job title. This informs employees what is expected when filling those positions. Central Payroll staff also documents important information discussed through formal minutes of meetings. These allow employees to see, in writing, the information used and agreements made by employees with respect to payroll operations.

OCA and Central Payroll also communicate information to external parties. For example, Central Payroll communicates to OSC how it obtains, uses, and protects its resources for processing payroll. This information is in the form of a questionnaire which is submitted to OSC. In addition, OCA issues an annual report to the Governor and the Legislature. This report is required per Section 212 of the Judiciary Law and includes the general activities of the UCS.

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*Risk Assessment*

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Risks that potentially threaten the accomplishment 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 the 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 UCS provided us with adequate written support for risk assessment over its Central Payroll processing and general OCA activities. The UCS utilizes an internal control self-assessment document to evaluate its various functions and the associated controls. The ICO coordinates the self-assessment program, which is performed by the various courts and offices within the UCS. The assessments are completed every two years, include narrative answers, and are modified year-to-year as needed. OCA also has a full-time employee who reports directly to the ICO and is responsible for following up on the self-assessments. The follow ups include site visits to the regional offices where issues have been identified.

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*Control Activities*

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Control activities are typically policies, procedures and other safeguards that an organization implements to help stop or reduce risks that can prevent the accomplishment of its objectives and mission. Management should establish control

activities to aid in the efficient and effective accomplishment of the organization's objectives and mission.

OCA management provided us with adequate written support for control activities over its Central Payroll system. OCA has policies, procedures and workflows to assist personnel in carrying out their responsibilities. These include the:

- OCA Salary Manual;
- PayServ User Screens Manual;
- OSC Payroll Manual for the UCS;
- Payroll Distribution Policy;
- New Hire Payroll Certification, Post Appointment Review Process, and Transfer Process workflows.

OCA's payroll policies and procedures are continuously updated. OSC regularly issues new payroll bulletins regarding PayServ, and OCA management provides further clarification, as needed, to employees responsible for payroll-related functions.

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### *Monitoring*

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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 achievement of organizational objectives.

The UCS provided us with adequate written support for the monitoring of Central Payroll processing and general OCA activities. Employee competency is essential to a good control environment and overall effectiveness

of the internal control system. OCA monitors employee performance through annual performance evaluations. These evaluations allow management to identify weaknesses in employee performance and enable employees to recognize areas needing improvement.

Central Payroll's operations are monitored in multiple ways. First, external reviews of OCA's administrative and accounting internal controls are completed every three years. Currently, OCA is contracting for this year's review. Secondly, OCA officials use reports generated by OSC to check their payroll activities and make the necessary corrections or audit adjustments. OSC provides this report to each agency, including OCA. OCA uses this report to compare the types of errors made currently to those made during previous periods - to determine if systemic problems might be occurring.

Furthermore, Central Payroll monitors the accuracy of payroll data by comparing the information contained in its KRONOS system (for employee time and attendance) to the PayServ master file. Unmatched records are identified and corrected to ensure the information in KRONOS matches the PayServ file. In addition, Central Payroll monitors employees that are removed from payroll and are pending a determination - whether they are on leave, returning from leave, or retiring. This information is made available through a quarterly report.

### **AUDIT SCOPE AND METHODOLOGY**

We did our audit according to generally accepted government auditing standards. We audited OCA's written support for internal controls over its payroll system for the period April 1, 2005 through July 21, 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 accomplish our objective we interviewed OCA officials and reviewed documentation, provided by OCA personnel, that supports their system of internal controls over the Central Payroll system.

In addition to being the State Auditor, the Comptroller of New York State performs certain other constitutionally and statutorily mandated duties as the chief fiscal officer of New York State, several of which are performed by the Comptroller's Division of State Services. 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 to certain boards, commissions and public authorities, some of whom have minority voting rights. These duties may be considered management functions for purposes of evaluating organizational independence under generally accepted government auditing standards. In our

opinion, these management functions do not affect our ability to conduct independent audits of program performance.

### **AUTHORITY**

The audit was performed in accordance with 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.

### **REPORTING REQUIREMENTS**

We provided draft copies of the matters included in this report to OCA officials for their review and comment. We considered their comments in preparing this draft report. A complete copy of OCA's response is included as Appendix A.

### **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

State of New York



Jonathan Lippman  
Chief Administrative Judge

25 Beaver Street  
New York, N.Y. 10004  
(212) 428-2100

September 25, 2006

Hon. Alan G. Hevesi  
State Comptroller  
110 State Street  
Albany, NY 12236

Dear Comptroller Hevesi:

I am in receipt of draft audit report entitled 2006-S-55 Written Support of Internal Controls over the Financial Reporting of Payroll for the Office of Court Administration.

I am pleased that the Office of the State Comptroller has found that "OCA has adequate written support over the internal controls for its Central Payroll system and its Division of Financial Management."

Our Division of Financial Management and our internal control staff will continue to maintain a system of internal control and internal control monitoring that provides assurances that the Unified Court System is meeting its operational objectives, protecting the State's assets under UCS control and reporting accurate financial data.

Sincerely,

A handwritten signature in cursive script that reads "Jonathan Lippman".

/smw

c: Lawrence Marks, Esq.  
Joseph M. DeChants  
Dennis W. Donnelly, CPA