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

April 9, 2009

Mr. Richard P. Mills  
Commissioner  
State Education Department  
State Education Building - Rm. 111  
89 Washington Avenue  
Albany, NY 12234

Re: Report 2008-F-41

Dear Commissioner Mills:

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 followed up on the actions taken by officials of the State Education Department (SED) to implement the recommendations contained in our audit report, *Assessment of Selected Financial Management Practices* (Report 2006-S-99).

**Background, Scope and Objective**

SED consists of five program offices, each under the direction of the Commissioner of Education. Four of the offices are: the Office of P-16 Education; the Office of Cultural Education; the Office of the Professions; and the Office of Vocational and Education Services for Individuals with Disabilities (VESID). The fifth office, the Office of Operations and Management Services (OMS), includes the Office of Facilities and Business Services (Facilities and Business Services), the Bureau of Fiscal Management (Fiscal Management) and the Office of Human Resource Management (OHRM). OMS provides administrative support services to each of SED's other four program offices.

Our initial audit report, which was issued on September 27, 2007, examined selected financial management practices. Our report found weaknesses in the controls over SED's equipment inventory. According to State records, SED spent about \$23.1 million on equipment from 2002 through 2006. However, SED's property control management did not maintain an accurate, complete record of SED's non-computer equipment. In addition, property control management could not provide us with inventory records for equipment purchased prior to 2004. The records that were available for subsequent periods were not accurate and complete. Further, SED had not conducted physical inventories of equipment, and management had not provided adequate training and guidance to employees responsible for the equipment control in the program units. During our tests of the equipment inventory records, we found it difficult to locate certain items due to the lack

of adequate records. The results of our testing of the SED's inventory records indicated these records were not sufficiently reliable as a management tool.

Our report also identified that for the period October 1, 2005 through February 28, 2007, SED paid its vendors late 35 percent of the time. The late payments were for purchases of goods and services relating to SED's operating expenses, such as utilities, equipment and supplies. The late payment percentages ranged from 15 to 52 percent for several regional offices within VESID. For the period April 1, 2005 through December 31, 2006, SED paid a total of \$208,397 in late payment interest.

In addition, our report found OHRM did not always update its payroll information in a timely manner to reflect the current work status of its employees. As a result, employees on leave of absence, active employees and terminated employees sometimes received salary payments they were not entitled to. We identified 24 instances of overpayments totaling \$55,536. Our report also found one employee who continued to receive location pay (additional compensation based on geographic location) that he was not entitled to over a seven year period, for a total of \$6,151.

The objective of our follow-up was to assess the extent of implementation as of February 23, 2009, of the 17 recommendations included in our initial report.

### **Summary Conclusions and Status of Audit Recommendations**

We found that SED officials have made considerable progress in addressing most of the issues identified in our initial report. However, additional improvements are needed in certain instances. Of the 17 prior audit recommendations, 10 recommendations have been implemented, 5 recommendations have been partially implemented, 1 recommendation has not been implemented, and 1 recommendation is no longer applicable.

### **Follow-up Observations**

#### **Recommendation 1**

*Implement a complete, accurate and up-to-date recordkeeping system over equipment. The recordkeeping system should contain, but not be limited to, such information as the equipment's description, location, SED-issued decal number, value and other pertinent data.*

Status - Implemented

Agency Action - SED officials developed a new recordkeeping system over equipment, and staff has been assigned to keep the system up-to-date as equipment is acquired. Under the system, SED staff records relevant information about new equipment in an inventory database. The staff also attaches inventory decal numbers to equipment upon receipt. The new system requires SED's program office locations to update their inventory records annually.

### **Recommendation 2**

*Define and identify high risk items under \$5,000, and establish a dollar threshold for placing them under inventory record control. Remove items from the inventory records of minimal value and low risk, as well as non-equipment items such as quotes and warranties.*

Status - Partially Implemented

Agency Action - SED officials have established definitions for high risk items under \$5,000 and set dollar thresholds for placing such items under inventory record control. At the time of our follow-up review, staff was in the process of identifying high risk items and posting them to the new system. Officials further indicated that all items of minimal value and low risk, including certain non-equipment items, have been removed from the inventory records.

### **Recommendation 3**

*Formally assign administrative responsibility for equipment control to specific individuals at program locations. Such individuals should maintain accurate logs of equipment under their responsibility.*

Status - Implemented

Agency Action - SED officials formally assigned administrative responsibility for equipment control to specific individuals at program locations. These individuals comprise SED's Inventory Management Team. The assigned individuals at each program location are required to keep track of all inventoried items, particularly those considered to be of higher risk. In addition, these employees are required to update their program's equipment inventory records at least annually.

### **Recommendation 4**

*Develop and communicate adequate written inventory control procedures, including procedures over equipment purchased by credit card.*

Status - Implemented

Agency Action - SED has developed written inventory control procedures, which include procedures for equipment purchased by credit card. These procedures require that information about newly purchased equipment is recorded in an inventory database, inventory decal numbers are attached to newly purchased furniture or equipment, and inventory records are annually updated at program locations. Further, SED officials indicated that the inventory control procedures are posted on its intranet, which is accessible by all SED staff.

**Recommendation 5**

*Establish a system to promptly notify property control management when new equipment is received so it can be properly inventoried, including items purchased through credit cards.*

Status - Implemented

Agency Action - SED has developed a system to promptly notify property control management when new equipment is purchased. Under this system, the property control management unit will receive a copy of the purchase order for all purchases of equipment and furniture, including those made via credit cards. Once the purchase order is received by property control management, all pertinent information will be recorded on the equipment database system. A sticker will be assigned to the equipment and sent to the program location of the equipment along with other pertinent information. The designated inventory liaison for the location is required to inform property control management when the item is received, apply the identification sticker to the equipment, and file all information about the equipment in the program unit's records.

**Recommendation 6**

*Perform annual, independent physical inventories of equipment, and monitor the reported results.*

Status - Not Implemented

Agency Action - According to SED officials, an independent physical inventory of equipment has not yet been performed. Officials indicated that SED plans to perform an independent physical inventory of all equipment in the Albany area by March 31, 2009. They added that inventories will be performed at locations outside of Albany when site visits for other business reasons are made (to help optimize the use of limited travel funding).

**Recommendation 7**

*Report lost or stolen equipment in excess of \$250 to OSC.*

Status - Implemented

Agency Action - SED officials have adopted the procedures in the New York State Accounting System User Procedures Manual promulgated by OSC to report lost or stolen property in excess of \$250. Officials added that since our original audit, SED had not identified any lost or stolen equipment in excess of \$250, and therefore, had not submitted a report of lost or stolen property to OSC.

### **Recommendation 8**

*Ensure that employees are aware of their job responsibilities, and provide the necessary oversight to ensure equipment control functions are carried out as required.*

Status - Partially Implemented

Agency Action - SED has developed a recordkeeping system over equipment, prepared written inventory control procedures, assigned specific individuals administrative responsibility for equipment, and established a system to promptly inventory new equipment purchases. However, although officials indicated that job responsibilities were communicated to those assigned responsibility for equipment, they could not provide documentation that such communication had occurred.

### **Recommendation 9**

*Require VESID Central Office management to reinforce the existing policies and procedures by:*

- *clearly communicating policies and procedures to each VESID district office;*
- *monitoring district offices to ensure policies and procedures over consumer equipment are being followed.*

Status - Partially Implemented

Agency Action - SED officials informed us that, since our original audit, meetings have been held at all 16 VESID district offices where financial policies and procedures were discussed with pertinent employees. Internal controls over financial management were addressed in these meetings. However, at the time of our follow-up review, VESID Central Office management had not taken steps to monitor the district offices to ensure that staff followed the policies and procedures over consumer equipment.

### **Recommendation 10**

*Develop new policies and procedures to prevent delays in the processing of vendor payments. Monitor the timeliness of these transactions, and take corrective action when these transactions are not processed in a timely manner.*

Status - Partially Implemented

Agency Action - SED officials indicated that new formal polices and procedures to prevent delays in processing vendor payments had not yet been developed at the time of our follow-up review. However, officials have taken certain steps to address this issue. Specifically, SED officials provided training to staff regarding the posting of correct Merchandise Inventory Received (or MIR) dates, and they emphasized the use of procurement cards to help avoid interest

costs for late payments. In addition, officials were working with the Office of the State Comptroller to increase Quick Pay limits, which would help reduce delays in voucher processing. Also, SED has developed a new process to track the status of vendor payments once they are deemed to be late, and officials periodically generate reports of late vendor payments for distribution to the program offices for corrective action.

Nonetheless, we determined that SED had made limited progress in reducing the impact of late payments. For the period January 1, 2007 through September 30, 2008, SED paid vendors \$260,111 in interest due to late payments. This was relatively consistent with the amount of late payment interest costs incurred by SED and noted in our original audit.

### **Recommendation 11**

*Provide training for staff at the various program locations on the need to use the correct MIR date, as well as when and what documentation needs to be submitted by vendors.*

Status - Partially Implemented

Agency Action - SED officials told us that the 16 VESID program locations were visited and employees at those locations were trained to use the correct MIR date. However, SED officials indicated that they still need to address the types of documentation that vendors should submit with their claims through future staff training sessions. VESID officials further indicated that the issue of vendor documentation will be included in the VESID Business Manual, which was being drafted at the time of our follow-up review.

### **Recommendation 12**

*Formally analyze the current finance office staffing levels throughout SED, including the central office and district offices. Make appropriate adjustments to the staffing levels, as warranted.*

Status - Implemented

Agency Action - SED officials indicated that the Office of Human Resource Management conducted an analysis of staffing levels in 15 VESID district office finance units and established staffing levels to ensure separation of duties and timely processing of financial transactions. The staffing levels established for each finance unit took into consideration the size of each office. VESID officials stated that finance office positions identified by the analysis have not been fully staffed due to continued financial restrictions, and adjustments will be made to finance office staffing levels when appropriate.

### **Recommendation 13**

*Improve monitoring and communication between the program locations and Fiscal Management to ensure timely closure of employee credit card accounts.*

Status - Implemented

Agency Action - SED has established a process to ensure the timely closure of employee credit card accounts. This process includes the designation of an employee to close credit card accounts when personnel leave SED employment. SED officials told us that this employee receives agency-wide e-mail notifications of all personnel who are leaving SED. The designated employee records the termination date of the personnel leaving SED, checks the person's name against all open credit card accounts, and when applicable, cancels the credit cards.

**Recommendation 14**

*Require the VESID Central Office to develop and implement appropriate and timely monitoring activities to assess overall contractor performance throughout all VESID regions.*

Status - Implemented

Agency Action - VESID Central Office has developed and implemented appropriate and timely monitoring activities to assess overall contractor performance. These efforts include the establishment of performance measures to assess the quality and quantity of services provided by VESID contractors. VESID officials advised that payments are made to contractors based on the assessment of their services using the newly developed performance measures.

**Recommendation 15**

*Review and, where appropriate, update policies and procedures to prevent delays in the processing of payroll removals and adjustments. Monitor the timeliness of payroll transactions, and take corrective action when these transactions are not processed in a timely manner.*

Status - Implemented

Agency Action - SED officials indicated that they reviewed payroll removal and adjustment policies and procedures and determined that they did not need to be updated. According to SED officials, the cause of the delays was attributed to a lack of understanding of the prescribed processes by some SED staff. As such, SED officials improved the manner in which this guidance was communicated to SED staff. Additionally, SED officials have established a process to monitor the timeliness of payroll transactions and take corrective action when needed. According to officials, payroll reconciliations are performed every pay period to ensure the accuracy and timeliness of payroll transactions.

**Recommendation 16**

*Routinely compare information in employee records to the information recorded on SED's payroll to ensure employees' official work stations and other pertinent information are updated appropriately.*

Status - Implemented

Agency Action - SED developed a process to routinely reconcile information in employee records to the information recorded on SED's payroll to ensure official work stations and other pertinent information are appropriately updated. The reconciliations consist of comparisons between the information maintained in employee records and data on SED's payroll system, such as employee work location and employment status. These comparisons better enable SED to identify and prevent inappropriate payroll payments.

**Recommendation 17**

*Recover the \$6,151 in location pay overpayments identified in this report from the employee who received them.*

Status - Not Applicable

Agency Action - In December 2007, SED officials obtained formal guidance from OSC's Bureau of Payroll about this matter. At that time, OSC advised SED that the overpayment of the location differential was not recoverable. Nonetheless, it should be noted that location pay for this employee was discontinued in April 2007.

Major contributors to this report were Karen Bogucki, Danielle Rancy and Anthony Calabrese.

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 SED for the courtesies and cooperation extended to our auditors during this review.

Very truly yours,

Brian E. Mason  
Audit Manager

cc: Mr. Thomas Lukacs, Division of the Budget  
Ms. Theresa Savo, SED  
Mr. James Conway, SED