
**Thomas P. DiNapoli
COMPTROLLER**



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**OFFICE OF THE
NEW YORK STATE COMPTROLLER**

**DIVISION OF STATE
GOVERNMENT ACCOUNTABILITY**

**STATE UNIVERSITY OF
NEW YORK: MARITIME
COLLEGE**

**CONTROLS OVER
SELECTED PAYROLL
PRACTICES**

Report 2007-S-107

AUDIT OBJECTIVE

Has Maritime College established effective controls over payroll changes and the recovery of payroll overpayments?

AUDIT RESULTS - SUMMARY

We concluded that Maritime College (Maritime) has established effective controls over payroll changes. Generally, staff followed appropriate procedures to ensure that payroll additions and deletions were processed timely and accurately. Moreover, pursuant to staffing changes and procedural improvements in recent years, the annual amounts of payroll overpayments decreased significantly, from \$89,294 in the 2003-04 fiscal year to \$581 in the 2006-07 fiscal year. As a result, the Office of the State Comptroller (OSC) formally acknowledged Maritime's improved payroll performance.

We also determined that Maritime's efforts to recover overpayments were generally effective. However, Maritime should strengthen procedures to post recoveries of payroll overpayments to the State Payroll System (PayServ). Maritime officials had recovered about half of our sampled overpayments, but did not properly post them to PayServ. Although PayServ indicated that the balance of un-recovered overpayments was about \$136,380 (as of September 13, 2007), the actual balance was about \$66,000.

We further noted that Maritime should refer certain unpaid balances (resulting from payroll overpayments) to the State Attorney General (AG) more timely, to improve the ability to recover them. Maritime did not refer \$37,077 in uncollected overpayments to the AG timely. Most of this amount related to outstanding balances of \$1,000 or more that were outstanding for more than 121 days.

Our report contains three recommendations to improve controls over Maritime's procedures relating to payroll deletions and the recovery of payroll overpayments. Maritime officials agreed with our recommendations and indicated steps they will be taking to implement them.

This report, dated March 4, 2008, is available on our website at: <http://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 Government Accountability
110 State Street, 11th Floor
Albany, NY 12236

BACKGROUND

Maritime is one of the specialized colleges within the State University of New York (SUNY) system. Maritime has about 1,400 students and awards associate's, bachelor's, and master's degrees, mainly in science and engineering. It educates students to become officers in the American merchant marine as well as for positions in certain other professions. Maritime is located at Throgs Neck (near the western end of Long Island Sound) in the borough of the Bronx, within the City of New York. Maritime employs approximately 340 personnel on their main agency payroll, 550 on their student assistant payroll, and 200 employees on their federal work study payroll. Maritime's total payroll expense for the 2006-07 fiscal year was about \$14 million.

PayServ is New York State's comprehensive payroll system, which is maintained by OSC. Agencies submit payroll information, through PayServ, to OSC, where paychecks are calculated and produced. Using PayServ, OSC produces paychecks on a bi-weekly basis for State employees. Generally, employees' paychecks remain the same from

period to period unless changes are posted to PayServ. Therefore, the accuracy of payrolls generated from PayServ depends on the effectiveness of each agency's payroll update functions. The State Accounting System User Procedure Manual (Manual) prescribes the appropriate internal controls over key payroll processes. Additionally, OSC issues payroll bulletins that provide State agencies with information and guidance on proper payroll practices. Payroll Bulletin 470 (Bulletin 470) establishes general policies and procedures for the prompt recovery of overpayments. Bulletin 470 also refers to the State Division of the Budget Policy and Reporting Manual (DBPRM), which details procedures for referring uncollected debts to the AG for further collection efforts.

AUDIT FINDINGS AND RECOMMENDATIONS

Overpayments

According to the Manual, agency personnel offices are responsible for processing and maintaining records of all payroll changes. Procedures to process and document employment terminations should be established to ensure timely deletion from the payroll and, thereby, avoid payroll overpayments. In addition, independent checks over personnel and payroll changes should be made to ensure that reports of authorized payroll changes have been acted upon promptly. Undelivered checks should be returned to the business office for safekeeping.

Pursuant to Bulletin 470, State agencies should take the appropriate measures to ensure that payroll overpayments are recovered in full as soon as possible. Specifically, agencies must immediately notify the employee in writing of the amount overpaid and the appropriate method of

recovery. Further, the DBPRM directs agencies to implement and maintain a structured, consistent, and timely process to effectively collect past-due debt, including referral to the AG. The DBPRM requires agencies to refer to the AG debt exceeding \$1,000 that has remained uncollected for 121 days or more.

We determined that Maritime had established effective controls to help ensure that payroll transactions (in particular, deletions) are made timely to PayServ. We further determined that the annual number and dollar amount of payroll overpayments at Maritime decreased substantially from April 2003 through March 2007. For the 2003-04 year, Maritime made payroll overpayments (totaling \$89,294) to 43 employees. During the 2004-05 year, overpayments (totaling \$12,541) were made to eight employees, and overpayments (totaling \$33,963) were made to four employees in the 2005-06 year. During the 2006-07 year, two employees were overpaid, for amounts totaling only \$581. We attribute this improvement to the current payroll staff at Maritime (hired in recent years) that consistently follow the proper procedures for payroll transactions and ensure that they are made timely.

To assess the causes of the overpayments, we selected a judgmental sample of ten employees for review. The sample included the five employees receiving the largest overpayments during the 2003-04 and 2004-05 fiscal years and the five employees with the largest overpayments during the 2005-06 and 2006-07 fiscal years. The overpayments made to these ten employees totaled \$73,321. The overpayments to the ten employees we selected resulted from late or errant payroll transactions. In eight cases, terminated employees were not removed from PayServ on time. In the remaining two cases, the employees (who were not terminated)

received overpayments because compensation-related changes were not processed timely.

For overpayments to one of the terminated employees, we noted that multiple errors were made. The employee's last day of work was April 25, 2005. At that time, the employee should have been placed on sick leave at half pay and then removed from the payroll when the employee's leave accruals were exhausted. Instead, staff entered the transaction in PayServ under a code for Worker's Compensation (not sick leave with half pay). As a result, the employee received excessive compensation (at full-time pay) totaling \$6,199. Maritime also withheld additional paychecks totaling \$8,307 pending resolution of a Worker's Compensation claim submitted by the employee in question. Maritime officials should have notified PayServ that they withheld the checks and then returned them to PayServ. However, because Maritime did not notify PayServ, the checks in question were placed in the custody of OSC's Office of Unclaimed Funds (OUF) after one year. Moreover, the employee subsequently claimed and received a payment of \$4,198 (net of taxes and other withholdings) from OUF, although the employee was not entitled to it. Maritime officials indicated they are working with OSC to recover the payments made in error to this employee.

PayServ records indicated that Maritime made payroll overpayments (to the aforementioned 57 employees) totaling \$136,380 as of September 13, 2007. To assess the extent of recovery of the overpayments, we reviewed records pertaining to the same ten employees, as previously noted. We found that the outstanding overpayment balance for the ten employees was actually \$37,077, or about half of the balance (\$73,321) indicated by PayServ. Maritime staff had not properly

posted recoveries (totaling \$36,244) to PayServ. Because the PayServ overpayment balances in our sample were significantly overstated, we concluded that Maritime's total overpayment balance (\$136,380 as of September 13, 2007) was also likely overstated. (Subsequent to our audit fieldwork, Maritime officials informed us that \$70,174 of the \$136,380 had been recovered. Consequently, the outstanding balance of overpayments was actually \$66,206.) Prior to our audit, Maritime personnel were unaware of the specific procedures to correctly post recoveries to PayServ. After we brought these matters to their attention, Maritime staff made the appropriate adjustments to PayServ. Moreover, Maritime officials indicated that they will ensure that the proper procedures for posting recoveries to PayServ are followed in the future.

As noted previously, Bulletin 470 and the DBPRM require agencies to refer uncollected debts to the AG under certain circumstances. However, Maritime did not refer \$37,077 in uncollected overpayments, identified in our sample, to the AG. Most of this amount related to outstanding balances of \$1,000 or more that were outstanding for more than 121 days. In several instances, the balances were outstanding for two years or more. Because the outstanding balances were not referred to the AG timely, the ability of State officials to recover them could be lessened. Maritime officials told us that efforts to determine and document the correct balances of older overpayments and to train new staff were high priorities in recent years. Further, throughout this period, Maritime officials were identifying present and former employees who owe Maritime money, and they have attempted to recover funds before turning outstanding balances over to the Attorney General. Officials added that, in the future, they will refer uncollected overpayments to

the AG in accordance with Bulletin 470 and the DBPRM.

Recommendations

1. Ensure that payroll checks, corresponding to payroll overpayments, are returned to PayServ timely.
2. Ensure that overpayment recoveries are posted properly and timely to PayServ so that the amounts of outstanding balances are accurate.
3. Refer uncollected overpayments, which meet the criterion specified by the Division of the Budget, to the Attorney General for further collection efforts, as necessary.

AUDIT SCOPE AND METHODOLOGY

We conducted our audit in accordance with generally accepted government auditing standards. We audited selected payroll practices at Maritime College for the period April 1, 2003 through October 25, 2007. We reviewed the New York State Accounting System User Procedure Manual, related Payroll Bulletins, and policies and procedures established by Maritime. We interviewed officials in Payroll, Office of Human Resources. We analyzed overpayment data maintained by OSC's Bureau of Payroll Services on PayServ. We selected a judgmental sample of the ten employees consisting of five with the largest overpayments incurred during the 2003-04 and 2004-05 fiscal years, and five with the largest overpayments incurred during the 2005-06 and 2006-07 fiscal years. We reviewed documentation such as time sheets, payroll check distribution logs, and collection letters.

In addition to being the State Auditor, the Comptroller performs certain other constitutionally and statutorily mandated duties as the chief fiscal officer of New York State. 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 functions do not affect our ability to conduct independent audits of program performance.

AUTHORITY

The audit was done according 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.

REPORTING REQUIREMENTS

We provided draft copies of this report to SUNY and Maritime officials for their review and formal comment. We considered the comments of SUNY and Maritime officials in preparing this report and have included them as Appendix A. Officials agreed with our recommendations and indicated the steps they will be taking to implement them.

Within 90 days of the final release of this report, as required by Section 170 of the Executive Law, the Chancellor of the State University of New York 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.

CONTRIBUTORS TO THE REPORT

Major contributors to this report include Brian E. Mason, Ronald A. Pisani, Donald J. Collins, Nicole M. Van Hoesen, and Mark W. Breunig.

APPENDIX A - AUDITEE RESPONSE



THE STATE UNIVERSITY *of* NEW YORK

Office of the
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University Auditor

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February 7, 2008

Mr. Brian E. Mason
Audit Manager
Division of State Government Accountability
Office of the State Comptroller
110 State Street, 11th Floor
Albany, New York 12236

Dear Mr. Mason:

In accordance with Section 170 of the Executive Law, we are providing our comments to the draft audit report on the State University of New York Maritime College - Controls Over Selected Payroll Practices (2007-S-107). We concur with the recommendations in the report and will use the report to further improve our processes and controls.

We are pleased that your audit concluded that Maritime College has established effective controls over payroll changes and recognized that its payroll operations have significantly improved in the last three years. As indicated in the draft report, overpayments have declined by 99 percent from the 2003-04 to the 2006-07 fiscal years.

The Maritime College Human Resources Department has undergone significant change in recent years. The result is that controls in the processing of payroll and personnel have greatly improved. Maritime College has a highly qualified and experienced team processing payroll and personnel transactions. In November 2007, Maritime College received a Payroll Achievement Award from the Office of the State Comptroller's (OSC) Bureau of State Payroll Services for the Most Improved Composite Performance over four years. Our comments to the recommendations follow:

Recommendation 1 - Ensure that payroll checks, corresponding to payroll overpayments, are returned to OSC timely.

UNIVERSITY CENTERS AND DOCTORAL DEGREE GRANTING INSTITUTIONS University at Albany • Binghamton University • University at Buffalo • Stony Brook University • SUNY Downstate Medical Center • Upstate Medical University • College of Environmental Science and Forestry • College of Optometry • NYS College of Ceramics at Alfred University • NYS College of Agriculture/Life Sciences at Cornell University • NYS College of Human Ecology at Cornell University • NYS College of Industrial/Labor Relations at Cornell University • NYS College of Veterinary Medicine at Cornell University UNIVERSITY COLLEGES SUNY Brockport • Buffalo State College • SUNY Cortland • Empire State College • SUNY Fredonia • SUNY Geneseo • SUNY New Paltz • SUNY Old Westbury • College at Oneonta • SUNY Oswego • SUNY Plattsburgh • SUNY Potsdam • Purchase College TECHNOLOGY COLLEGES Alfred State College • SUNY Canton • SUNY Cobleskill • SUNY Delhi • Farmingdale State College • Maritime College • Morrisville State College • SUNY Institute of Technology COMMUNITY COLLEGES Adirondack • Broome • Cayuga County • Clinton • Columbia-Greene • Corning • Dutchess • Erie • Fashion Institute of Technology • Finger Lakes • Fulton-Montgomery • Genesee • Herkimer County • Hudson Valley • Jamestown • Jefferson • Mohawk Valley • Monroe • Nassau • Niagara County • North Country • Onondaga • Orange County • Rockland • Schenectady County • Suffolk County • Sullivan County • Tompkins Cortland • Ulster County • Westchester

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SUNY Response – The College agrees with the recommendation and will return checks corresponding to payroll overpayments to the Remittance Control section of the OSC Bureau of State Payroll Services in a timely manner. It should be noted that this recommendation refers to one unique situation which was the result of personnel changes in both the Payroll and Accounting offices. The late return of paychecks to OSC has not been a recurring or systemic problem at the College.

Recommendation 2 - Ensure that overpayment recoveries are posted properly and timely to PayServ so that the amounts of outstanding balances are accurate.

SUNY Response – The College agrees with the recommendation and will post overpayment recoveries to PayServ as required.

Recommendation 3 - Refer uncollected overpayments, which meet the criterion specified by the Division of the Budget, to the Attorney General for further collection efforts, as necessary.

SUNY Response – The College agrees with the recommendation and will refer uncollected overpayments to the Attorney General, as appropriate. The current Maritime Director of Human Resource (Director) has been in the process of following up on the outstanding overpayments, a process that was started prior to the visit by the OSC auditors. The Director has been working to determine the present and former employees who owed money and is attempting to recover funds before turning the unrecovered overpayments over to the Attorney General's Office.

Observations Noted by the College:

Through this audit process, the College has become aware of opportunities in the State payroll system to further improve controls over payroll and ensure that State payroll funds are not lost or misappropriated. These controls include:

- Acknowledgement of the receipt of the payments returned to OSC, either in PayServ or by some other form of communication from OSC,
- Verification that the college or agency made the corresponding entry in PayServ for payments returned to OSC and notification if the required entry was not made, and
- Verification with the college or agency that the individual is entitled to unclaimed State payroll funds.

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Thank you for the opportunity to respond to the audit report. If you have any questions, please contact me at 518-443-5533 or michael.abbott@suny.edu.

Sincerely,



Michael Abbott, CPA
University Auditor

Copy: Dr. Clark
President Craine
Dr. Cline
Mr. Schaefer