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STATE OF NEW YORK
OFFICE OF THE STATE COMPTROLLER

September 25, 2008

Mr. David P. Wehner
Executive Director/CEO
NYS Insurance Fund
199 Church Street
New York, NY 10007

Re: Report 2008-F-12

Dear Mr. Wehner:

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 New York State Insurance Fund (SIF) to implement the recommendations contained in our audit report, *Internal Controls Over Selected Financial Operations* (Report 2005-S-57).

Background, Scope and Objective

SIF is a non-profit agency of the State of New York that was established in 1914 to provide a guaranteed source of workers' compensation insurance coverage for employers in New York State. Approximately 190,000 employers hold SIF workers' compensation insurance policies, while 60,000 have active disability benefits policies. SIF is administered by a Board of Commissioners. The Commissioner of Labor of New York State serves by virtue of his office, with the other nine members being appointed by the Governor with the consent of the Senate. SIF's day-to-day operations are managed by an Executive Director, subject to the direction of the Board of Commissioners. As of June 25, 2008, SIF had approximately 2,650 employees in its central office and 9 district offices. In 2007, it incurred \$142.5 million in personal service expenses.

Our initial audit report, which was issued on August 10, 2006, examined SIF's controls over selected aspects of computer equipment, payroll, and vehicle fleet operations. Our report identified significant control weaknesses over computer equipment inventory. For example, in numerous instances, computer equipment was not recorded on the inventory records; nor could it be found during our review. Inventory records were not always updated when the equipment was moved to other locations; physical inventories were not taken as required; employees responsible for maintaining control over equipment did not have a sufficient understanding of their responsibilities, and management did not oversee the equipment control function adequately.

We also determined that SIF, which had 63 student assistants, often hired individuals who did not meet eligibility criteria set by the Department of Civil Service (Civil Service). The accuracy and completeness of employee time cards, as well as the use of overtime and SIF's vehicle fleet, also need better control.

The objective of our follow-up was to assess the extent of implementation, as of September 16, 2008, of the eight recommendations included in our initial report.

Summary Conclusions and Status of Audit Recommendations

We found that SIF officials have made significant progress in correcting the problems we identified. However, additional improvements are needed in some areas. Of the eight prior audit recommendations, five recommendations have been implemented and three recommendations have been partially implemented.

Follow-up Observations

Recommendation 1

Strengthen controls over computer equipment by:

- *timely recording all purchases on the inventory records;*
- *adjusting the records to account for all transfers;*
- *taking annual, physical inventories and documenting the results;*
- *reporting lost or stolen equipment to the OSC;*
- *recording equipment values;*
- *communicating to the property manager and his staff their responsibilities relating to control over computer equipment;*
- *providing management oversight.*

Status - Partially Implemented

Agency Action - SIF has implemented each element except for the recording of equipment values. SIF officials state that the system it currently uses to track fixed assets does not allow for the recording of equipment values.

- *timely recording all purchases on the inventory records* - SIF established an Inventory Control Unit (ICU) to oversee Information Technology (IT) equipment. This unit, which was established as part of the SIF's Department of Administration, is responsible for ensuring that IT purchases are entered into the inventory records. We determined that two judgmental samples – 15 of 1,650 Dell desktops purchased during October 2007 and 25 of 535 Dell laptops purchased in December 2007 – had both been recorded in the inventory records.
- *adjusting the records to account for all transfers* - In March 2007, SIF established procedures to control equipment transfers. We found all of the 15 desktops and laptops we judgmentally selected from the inventory records to be at the exact locations and

assigned to a user specified in the records. We also verified that the 15 IT equipment items we judgmentally selected from those found on the location during our site visits did appear in the inventory records as of June 16, 2008; had been assigned to the user indicated in the records; and were located where they were supposed to be.

- *taking annual, physical inventories and documenting the results* - According to its records, SIF performed physical inventory counts systemwide during 2007, and planned to repeat the process in late 2008. SIF also conducts quarterly verification of inventory records.
- *reporting lost or stolen equipment to the OSC* - SIF records show the loss or theft of one equipment item between November 10, 2006, and July 30, 2008, which based on its value was required to be reported to OSC. SIF reported its disappearance to OSC, as required.
- *recording equipment values* - SIF officials explained that, because the Oracle Fixed Asset portion of their data system had not been implemented, they have been unsuccessful, in their attempts to include equipment acquisition costs in the inventory records. SIF plans to hire a consultant to install the Oracle Fixed Asset module that will record equipment values.
- *communicating to the property manager and his staff their responsibilities relating to control over computer equipment* - SIF has taken several steps to strengthen controls: in 2005, establishing written procedures for communicating to managers and staff their responsibilities relating to controls over the equipment; in December 2006, adopting written procedures for conducting physical inventories; and during the period March 2007 through March 2008, issuing detailed procedures for receiving and moving IT equipment, reporting its theft or loss, and delineating the duties of department managers and system support aides regarding IT equipment assigned to their areas.
- *providing management oversight* - SIF management has strengthened its oversight of IT equipment through establishment of the ICU and written procedures covering various aspects of the inventory management. ICU has also held a series of meetings to review the new procedures and provide guidance.

Recommendation 2

Investigate and take appropriate action in the cases we identified where equipment cannot be accounted for.

Status - Implemented

Agency Action - SIF officials investigated the equipment that could not be accounted for. They were able to account for 138 of the 167 IBM laptops that could not be located during our original audit; 53 of 57 IT equipment items from our random sample of 232 that could not be located during our original audit; and 34 of the 43 IT equipment items appearing on the inventory

records as assigned to terminated employees. SIF officials have been unable to locate the remainder of the missing IT equipment. They explained that the still-missing items are of greatly-diminished value because of rapid technological changes; and, in fact, may have been disposed of improperly during 2005. SIF has adjusted its inventory records appropriately.

Recommendation 3

Utilize student assistant positions appropriately.

Status - Partially Implemented

Agency Action - Subsequent to our audit, SIF took action to utilize fewer student assistants, removing 57 of the 63 initially reported. However, we found that at least one of the remaining long-term assistants, who was not a matriculated student in spring 2008, no longer met the minimum Civil Service qualifications for this title.

SIF officials said they expect applicants for summer internships to self-report their student status, and do not require confirming documentation (e.g., a college transcript or letter). Of the nine student assistant files we examined, just one contained confirming proof of enrollment. Under Civil Service rules, an agency cannot employ individuals as student assistants after they earn their bachelor's degree.

Recommendation 4

When retired employees who return to SIF are paid more than the annual salary limits set by the Retirement and Social Security Law, report this information to NYSLERS.

Status - Implemented

Agency Action - SIF officials provided documentation evidencing that they have requested and received waivers permitting the appointment of government retirees.

Recommendation 5

Require field employees to record their actual starting and ending times of their workday, in accordance with their union agreement.

Status - Implemented

Agency Action - Effective June 1, 2006, SIF requires field employees to record the actual starting and ending times of their workday, in accordance with their union agreement. In addition, in October 2006, SIF implemented a new electronic timekeeping system, Leave and Accruals Tracking System (LATS), which requires these employees to enter the actual starting and ending time of their workday directly into an electronic time sheet.

Recommendation 6

Ensure that supervisors review their employees' time cards for accuracy and completeness, and initial all required items before they sign the time cards.

Status - Implemented

Agency Action - LATS alleviates many of the previously-reported problems associated with the paper system. It requires employees to account for all scheduled work time, by either showing hours worked or charging leave accruals, and will not transfer a time sheet to the Payroll system unless the supervisor has approved it electronically.

Recommendation 7

Recover all overtime overpayments.

Status - Implemented

Agency Action - SIF investigated all three instances of possible excessive overtime claims we reported, conducted disciplinary hearings, and fined two employees who had overstated their overtime claims. They found no wrongdoing in the third instance.

Recommendation 8

Improve control over vehicles assigned to executives by:

- *complying with the provisions in OSC's Payroll Bulletin 437 for reporting the taxable value of employer-provided vehicles;*
- *maintaining records of business related mileage; and*
- *documenting the justification for buying or leasing an SUV for employee use.*

Status - Partially Implemented

Agency Action - In response to the initial report, SIF assigned a State vehicle only to the Executive Director; all other executives must use pool vehicles. However, SIF needs to ensure that vehicle logs provide complete and accurate information on vehicle use, such as trip destination and related mileage.

- *complying with the provisions in OSC's Payroll Bulletin 437 for reporting the taxable value of employer-provided vehicles - SIF has issued corrected W-2 forms for the tax year ending on December 31, 2005, reflecting the taxable benefits that executives received from their personal use of State vehicles assigned to them during that year. SIF properly used the lease value method to compute the taxable amount that should be included in the employees' wages for tax year ending December 31, 2006. In 2007, only the Executive Director was assigned a State vehicle; he reported taxable benefits related to his personal use of the vehicle.*

- *maintaining records of business related mileage* - Effective March 15, 2006, SIF requires employees using executive pool vehicles to maintain detailed travel logs for each vehicle. When we reviewed logs maintained during 2006, 2007, and 2008, we found many did not provide sufficient detail for monitoring purposes. For example, in April 2008, one employee used a pool vehicle for one month, driving it a total of 435 miles. However, he completed the vehicle log without identifying his specific destinations, writing “Various” on the entry. He did not indicate the actual mileage he drove to each of his destinations during the month. Also, some entries in the vehicle logs did not properly identify the vehicle to which they referred.
- *documenting the justification for buying or leasing an SUV for employee use* - SIF has not purchased or leased any new SUVs.

Major contributors to this report were Frank Houston, Myron Goldmeer, Alina Mattie, Jean-Renel Estime, and Farhan Ahmad.

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 New York State Insurance Fund for the courtesies and cooperation extended to our auditors during this review.

Very truly yours,

Cindi Frieder
Audit Manager

cc: Robert Verhayden, Director of Internal Audit
Tom Lukcas, Division of the Budget