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STATE OF NEW YORK  
OFFICE OF THE STATE COMPTROLLER

May 24, 2010

Dr. Nancy L. Zimpher  
Chancellor  
State University of New York  
State University Plaza  
Albany, NY 12246

Re: Report 2010-F-11

Dear Chancellor Zimpher:

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 University of New York Downstate Medical Center (Downstate) to implement the recommendations contained in our audit report, *Practices Related to Payroll Overpayments* (Report 2008-S-110).

**Background, Scope and Objective**

Downstate, with approximately 4,200 full-time employees and 554 part-time employees is located in Brooklyn, New York. According to Downstate officials, payroll expenditures were approximately \$413 million for the fiscal year ending June 30, 2009. Annually, Downstate issues about 127,000 paychecks and/or payroll advices for employees who are on direct deposit.

The New York State Payroll System (PayServ) is maintained by the Office of the State Comptroller's Bureau of State Payroll Services (OSC). Agencies, such as Downstate, submit payroll information to OSC where paychecks are calculated and produced. In most circumstances the same bi-weekly paychecks are produced for all salaried employees unless necessary changes are made to the system. Therefore, the accuracy of PayServ depends in a large part, upon the effectiveness of each agency's system update functions. At Downstate, the Department of Human Resources (Human Resources) is responsible for the accurate and timely processing of payroll changes to PayServ, including new appointments, terminations and other payroll-related transactions. The Department of Payroll (Payroll) is responsible for the collection of overpayments. Each department is responsible for reporting to Human Resources any changes that affect an employee's compensation and work status. Human Resources reviews and approves the changes in compensation prior to submitting them to Payroll for processing. Downstate's payroll is on a two-week lag, whereby the salary earned this pay period would not be paid for another two weeks. This allows Downstate adequate time to make the necessary changes to the payroll, such as removing someone from the payroll.

Our initial audit report, which was issued on December 24, 2008, examined the system of controls over the removal of individuals from the payroll. In addition, we examined Downstate's efforts to recover overpayments made to its employees. The objective of our follow-up was to assess the extent of implementation as of April 26, 2010 of the four recommendations included in our initial report.

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

We found that Downstate officials have made progress in correcting the problems we identified. Of the four prior audit recommendations, one recommendation has been implemented, two recommendations have been partially implemented, and one recommendation has not been implemented.

### **Follow-up Observations**

#### **Recommendation 1**

*Develop and implement comprehensive written policies and procedures for processing payroll changes in a timely manner.*

Status - Implemented

Agency Action - Downstate officials have developed and implemented comprehensive written policies and procedures for processing payroll changes in a timely manner. During our follow-up review, we reviewed documentation indicating that Downstate officials provided training to all supervisors on these new policies and procedures.

#### **Recommendation 2**

*Develop and implement detective controls such as timesheet tracking and requiring that undistributed payroll checks and direct deposit remittance advices be returned to the Payroll Unit for further handling.*

Status - Partially Implemented

Agency Action - Our review found that Downstate officials have developed and implemented detective controls such as timesheet tracking and the requirement that undistributed payroll checks be returned to the Payroll Unit. However, we found that direct deposit remittance advices were not returned to the Payroll Unit. Downstate officials advised us it is not practical to return undistributed direct deposit remittance advices to the Payroll Unit because most of the advices were previously mailed directly to the employee's home.

#### **Recommendation 3**

*Comply with OSC Bulletin 470 and immediately notify all employees of an overpayment. Send out repayment requests to all recipients of overpayments, which include the correct amount of the outstanding balances owed.*

Status - Not Implemented

Agency Action - Our review found that five of the ten employees we sampled were not notified of their overpayment in writing as required by OSC Bulletin 470. Downstate officials informed us that since they were acting proactively to recoup and account for overpayments, they did not send overpayment letters to those employees whose accounts were already being addressed and collected. Downstate officials advised us that going forward, they will send out repayment request letters to all recipients of overpayments, regardless of whether the overpayment is already being addressed and collected.

**Recommendation 4**

*Comply with the Division of Budget Policy and Reporting Manual and develop a formal tracking mechanism that identifies overpayment actions taken such as sending overpayment letters and State Attorney General Office referrals.*

Status - Partially Implemented

Agency Action - During the period July 2009 through February 2010, Downstate made \$203,711 in overpayments to 42 employees. Of this amount, \$139,234 had been recovered as of April 26, 2010. Downstate officials have developed an Overpayment Recovery Correspondence Report (Recovery Report) to formally track overpayment actions taken such as sending overpayment letters to employees and referrals to the State Attorney General Office. We reviewed a sample of ten of these overpayments to ensure the accounts had been tracked using the Recovery Report. We found that five of the ten accounts were not listed on the Recovery Report. Downstate officials advised us that, as a result of our review, they gained a clearer understanding of the need to record every overpayment, regardless of whether the overpayment had been addressed and collected.

Major contributors to this report were Stephen Lynch and Tania Zino.

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 Downstate for the courtesies and cooperation extended to our auditor during this process.

Very truly yours,

Kenrick Sifontes  
Audit Manager

cc. Dr. John C. LaRosa - President, SUNY Downstate Medical Center  
Michael Abbott - SUNY University Auditor  
Cheryl Kilkenny - Director of Internal Audit, SUNY Downstate Medical Center  
Thomas Lukacs – Division of the Budget