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**Thomas P. DiNapoli  
COMPTROLLER**



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**OFFICE OF THE  
NEW YORK STATE COMPTROLLER**

**DIVISION OF STATE  
GOVERNMENT ACCOUNTABILITY**

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**STATE UNIVERSITY OF  
NEW YORK**

**SUNY DOWNSTATE  
MEDICAL CENTER  
PRACTICES RELATED TO  
PAYROLL OVERPAYMENTS**

**Report 2008-S-110**

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## AUDIT OBJECTIVE

Our objective was to determine whether SUNY Downstate Medical Center established adequate controls to remove employees from the payroll and to recover payroll overpayments.

## AUDIT RESULTS - SUMMARY

We found that the State University of New York's (SUNY's) Downstate Medical Center (Downstate) needs to make significant improvements in its system of controls over the removal of individuals from the payroll. Between April 5, 2006 and March 8, 2007, Downstate allowed 118 employees to continue to collect salary payments (totaling \$490,257) after these employees were no longer entitled to their salary. Downstate officials and supervisors have a sufficient amount of time to remove individuals from the payroll to prevent salary overpayments. A minimum of 2 weeks in processing time is provided to remove people from the payroll. Seven of these overpayments went on for 3 months without detection by Downstate.

Once the overpayments were discovered, Downstate's efforts to recover the overpayments were mixed. We reviewed the records for 15 of the 118 employees that were overpaid during the period. Full recoveries were made from 6 of the 15 employees we tested. Partial recoveries were made from seven other employees, and no recoveries were made from two employees. After local efforts to collect have been exhausted, Downstate should have referred four cases to the Attorney General's Office for collection action. This was not done.

Our report contains four recommendations to improve controls over Downstate's payroll. In their response to our draft audit report, SUNY officials agreed with our

recommendations, and they indicated the steps that Downstate has taken and will be taking to implement them.

This report, dated December 24, 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, 11<sup>th</sup> Floor  
Albany, NY 12236

## BACKGROUND

The State University of New York Downstate Medical Center (Downstate) has over 4,100 full-time employees and approximately 446 part-time employees. According to Downstate officials, payroll expenditures were approximately \$329 million for the year ending June 30, 2008. Annually, Downstate issues about 122,000 paychecks and/or payroll advices for employees 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 in 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. Downstate's payroll is on a two-week lag, whereby the salary earned today would not be paid for about two weeks. This allows Downstate adequate time to make the necessary changes to the payroll, such as removing someone from the payroll.

## **AUDIT FINDINGS AND RECOMMENDATIONS**

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### *Causes of Payroll Overpayments*

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At Downstate, each department's supervisors are responsible for the timely reporting to Human Resources of any changes in an employee's status such as an individual leaving Downstate's employment (termination or separation). These changes should be reported on the appropriate forms (e.g., UP-2 Form or C-Form) prior to the scheduled deadline to prevent the issuance of overpayments. The payroll for all State agencies is produced on a lag basis; the paycheck you received today is for your work up until the prior payday. Therefore the agency has at least two weeks to process payroll transactions.

To determine whether the supervisors notified Human Resources in a timely manner, we reviewed the files and payroll records for a judgmental sample of 15 Downstate employees with large initial overpayment balances. Our sample consisted of four terminated employees, five active employees, and six employees who were on leave (e.g., leave of absence). In total, these employees were overpaid \$297,920 during the period April 5, 2006 through March 8, 2007. We

found that for 13 of the 15 employees, their respective departments' supervisors did not submit the required paperwork to Human Resources timely. The total amount of time that elapsed between the required submission date and the date Human Resources received the documentation ranged anywhere from nine days to 253 days. (See Exhibit A.)

The causes of the delays were threefold: inadequate procedures for processing transactions; a lack of basic monitoring by management; and poor supervision at the work unit level. For example, the Nursing Services Department which is comprised of several units, funnels all information to a single unit. This unit will send all information on to Human Resources. Nursing Services officials stated that once payroll change information was sent to Human Resources, they were no longer involved in the process. They told us that they do not follow up to ensure that payroll changes took place and/or that the transactions were performed accurately.

Of the 15 employees in our sample, five (33 percent) worked in Nursing Services. These employees received overpayments ranging from \$9,794 to \$33,935. For one employee, we found that overpayments were the result of two separate errors. In one instance, we found that the employee was on leave-without-pay for 33 days before the paperwork was submitted to stop the individual's paycheck. This caused an overpayment of \$9,255. After Downstate recovered \$2,805 from a direct deposit, the employee resigned. Nursing Services officials once again failed to submit the required paperwork in a timely manner. The paperwork was submitted 98 days late causing an additional \$27,485 in overpayments.

We asked Downstate officials if they had disciplined a supervisor for failing to file the

paperwork timely and we were told this had not been done. In addition, there is no evidence of any memorandums reminding administrators to make certain that paperwork is processed correctly and timely in the future. Department officials should be held accountable and informed of the ramifications of not submitting paperwork more expediently.

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### *Detective Controls Are Needed*

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Given that adequate preventative internal controls are not in place, Downstate must implement stronger detective internal controls. Downstate needs to set up a system to ensure that employees are working and those individuals who are no longer working, are removed from the payroll quickly. For example, Downstate's Time and Attendance Unit within the Payroll Unit does not track employee timesheets to insure they are submitted on time and approved by a supervisor. For 10 of the 15 sampled employees, multiple timesheets were not submitted, yet no one questioned if the employee should still receive a paycheck. We found that all 10 employees had at least four pay periods worth of overpayments, while four had at least 10 pay periods worth of overpayments. Another basic control would be to have someone conduct a floor check to determine if people are or are not working. Downstate does not perform regular unannounced floor checks to ensure people are working as expected.

Another control system that must be improved is the system for distributing (and returning undelivered) payroll checks and direct deposit advices. Downstate payroll officials do not have written policies and procedures detailing this process. Their

practice is to require department officials to sign a document indicating that they have received all payroll checks and direct deposit advices for their department's employees. Payroll checks that are not disbursed by the first Friday after the end of the payroll period must be returned to the Payroll Unit. However, direct deposit remittance advices are not required to be returned because they are not deemed to be important.

During our testing, we found that three of the 15 sampled employees received physical paychecks even though they were no longer employed by Downstate. Downstate officials stated that for one employee, the checks were mailed to the employee's home. However, officials could not determine how the other two employees received the paychecks when they were not working. All payroll checks and direct deposit remittance advices that can not be delivered directly to an employee should be returned immediately to the Payroll Unit. The return of payroll checks and direct deposit remittance advices should raise concerns that an employee has left the employment of Downstate.

Downstate officials advised us that they plan to perform internal audits including payroll payouts. Downstate officials have also prepared draft procedures, which include provisions such that if time sheets are delinquent for three pay periods, the paychecks will be held for explanations or supplemental documentation. They also stated that using their current time sheet review process (which is manual), they may not be able to discover whether or not a timesheet has been submitted because they have over 4,100 full-time employees. Downstate officials stated that they are exploring the possibility of procuring a system that would include electronic timesheets.

### Recommendations

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

### *Collection of Payroll Overpayments*

OSC Payroll Bulletin 470 provides policies and procedures for the prompt recovery of overpayments. Bulletin 470 requires that Downstate officials immediately notify the employee in writing of the amount overpaid and the proposed method of recovery. Bulletin 470 also refers agencies to the Division of Budget Policy and Reporting Manual (DBPRM) which establishes policies and procedures for the collection of non-tax debt. DBPRM requires agencies to implement and maintain a structured, consistent, and timely process to effectively collect past-due debt, including referral to the State Attorney General's Office. For example, the DBPRM requires agencies to refer to the State Attorney General's Office any debt exceeding \$1,000 that has remained uncollected for 121 days or more.

### Recovery Efforts

To determine the total amount of money that had been recovered for each of the 15 sampled employees who were overpaid, we reviewed PayServ records and Payroll documentation. We found that a full recovery had taken place for six employees, and partial recoveries were made from another seven employees. The percentage of recovery for

those who had made partial repayments ranged from 10 percent to 87 percent. Further, no collections had taken place for the remaining two employees, who had outstanding balances totaling \$31,338. Through collections and adjustments, Downstate was able to recover \$185,573 of the \$297,920 in overpayments made to the 15 employees, as of June 30, 2008. This left an outstanding balance of \$112,347 for these employees. (See Exhibit B.)

It was apparent that some of the recovery efforts were made due to our audit inquiry. We found that two of the sampled employees, who left Downstate and obtained jobs in other State entities, had many months of inactivity until we inquired about their respective overpayment status:

- As of June 18, 2008, the NYS Veteran's Home began to collect the overpayment after over six months of inactivity. The remaining overpayment balance at the time of our audit was \$4,447.
- As of June 18, 2008, the Helen Hayes Hospital began to collect the overpayment after over 10 months of inactivity. The remaining overpayment balance at the time of our audit was \$11,801.

Downstate has not fully utilized the available feature in PayServ, the Employee History Summary, to track former employees that go to work in other State agencies. Downstate officials agreed that our audit inquiry assisted in the recovery of certain overpayments, and they advised us that they will develop and standardize a system to track overpayments and the corresponding recoveries in the future.



## Employee Notification

To determine whether Downstate officials immediately notified employees of overpayments, we tested the sample of 15 employees. We found that Downstate officials never notified nine of the 15 employees (60 percent). For the remaining six employees, we found that notification letters were not sent in a timely manner. The number of days that it took officials to notify these six employees ranged from 17 days to 506 days.

We found that Downstate officials were not notifying active employees. They stated that it was not considered necessary because the employee was most likely aware of the overpayment. However, it is essential that employees are immediately notified, as per State regulation. Downstate officials advised us that they have recently begun sending overpayment letters to all applicable active and terminated employees.

## Attorney General Referral

To determine whether Downstate officials implemented and maintain a structured, consistent, and timely process to effectively collect past-due debt, we attempted to review their written policies and procedures. However, we found that Downstate officials have not established any policies and procedures, nor have they developed a mechanism for tracking the collection of overpayments. As a result of a lack of tracking of actions taken, required referrals were not made to the State Attorney General. Of the 15 sampled employees, we determined that four should have been referred to the State Attorney General. However, we found that the State Attorney General was not notified in all four instances. The combined outstanding balance was \$57,963 as of June 2008.

Downstate officials admitted that the overpayment recovery process has not been formalized into written procedures; however, it is based on verbal instructions, which may be subject to misinterpretation. They added that they will establish a formal overpayment tracking and recovery process.

### Recommendations

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.
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.

## AUDIT SCOPE AND METHODOLOGY

We conducted our audit in accordance with generally accepted government auditing standards. We audited selected payroll practices at Downstate Medical Center for the period April 5, 2006 through June 30, 2008. We reviewed the New York State Accounting System User Procedure Manual, related Payroll Bulletins, and policies and procedures established by Downstate. We interviewed officials in Payroll, Human Resources, and the Nursing Services, OB/GYN, Psychiatry and Radiology Departments. We also reviewed overpayment documentation from PayServ and Downstate, for a judgmental sample of 15 Downstate employees who received the largest overpayments during our audit period, to determine why these

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overpayments occurred and to assess the collection efforts to recover them.

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 performed according to the State Comptroller's authority under 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 Downstate officials for their review and formal comments. We considered their comments in preparing this report and have included them as Appendix A. SUNY and Downstate officials agreed with our recommendations and indicated the steps they have taken and 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 leader of the Legislature and Fiscal Committees, advising what steps were taken to implement the recommendation contained herein, and where recommendations were not implemented, the reason therefor.

#### **CONTRIBUTORS TO THE REPORT**

Major contributors to this report were Brian Mason, Stephen C. Lynch, Abe Fish, Marc S. Geller, Hugh Zhang and Shanna Mogan.

## EXHIBIT A

SUNY Downstate Medical Center  
Summary of Paperwork Processing Delays and Payroll Overpayments  
For 15 Selected Employees  
For the Period April 5, 2006 through March 8, 2007

Employee Sample No.	Date Paperwork was Required For Proper Processing	Date Paperwork was Received by Human Resources	Number of Days Late	Amount of Overpayment
1	October 23, 2006	December 19, 2006	57	\$42,839
2	September 12, 2006	January 26, 2007	136	\$33,935
3	September 13, 2005	March 30, 2006	198	\$28,911
4	October 9, 2006	October 30, 2006	21	\$25,995
5	June 6, 2006	May 22, 2006	N/A	\$24,548
6	September 22, 2006	February 20, 2007	151	\$23,102
7	July 4, 2006	December 13, 2006	162	\$21,988
8	December 5, 2006	February 13, 2007	70	\$15,846
9	October 9, 2006	January 31, 2007	114	\$15,021
10	February 27, 2007	March 8, 2007	9	\$12,547
11	August 29, 2006	October 13, 2006	45	\$12,269
12	July 4, 2006	June 1, 2006	N/A	\$11,700
13	August 14, 2006	April 24, 2007	253	\$10,075
14	December 5, 2006	February 16, 2007	73	\$9,794
15	August 1, 2006	November 7, 2006	98	\$9,350
TOTALS	-	-	-	\$297,920

N/A = Not Applicable



**EXHIBIT B**

SUNY Downstate Medical Center  
Summary of Collections, Adjustments, and Account Balances for Payroll Overpayments  
For 15 Selected Employees  
As of June 30, 2008

Employee Sample No.	Initial Overpayment Amount	Total Amount of Collections and Adjustments as of 6/30/08	Outstanding Balance as of 6/30/08	Status of Recovery
1	\$42,839	\$42,839	\$0	Full
2	\$33,935	\$29,488	\$4,447	Partial
3	\$28,911	\$8,115	\$20,796	Partial
4	\$25,995	\$25,995	\$0	Full
5	\$24,548	\$24,548	\$0	Full
6	\$23,102	\$2,243	\$20,859	Partial
7	\$21,988	\$0	\$21,988	None
8	\$15,846	\$4,045	\$11,801	Partial
9	\$15,021	\$7,031	\$7,990	Partial
10	\$12,547	\$12,547	\$0	Full
11	\$12,269	\$9,066	\$3,203	Partial
12	\$11,700	\$11,700	\$0	Full
13	\$10,075	(\$1,838)	\$11,913	Partial
14	\$9,794	\$9,794	\$0	Full
15	\$9,350	\$0	\$9,350	None
TOTALS	\$297,920	\$185,573	\$112,347	-

## APPENDIX A - AUDITEE RESPONSE



THE STATE UNIVERSITY of New York

November 5, 2008

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Mr. Steven E. Sossei  
Audit Director  
Office of the State Comptroller  
Division of State Government Accountability  
110 State Street, 11<sup>th</sup> Floor  
Albany, New York 12236

Dear Mr. Sossei:

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 Downstate Medical Center (SUNY DMC) – Practices Related to Payroll Overpayments Report 2008-S-110, hereafter the Report. We concur with the recommendations in the report and will utilize the report to further improve our policies, procedures, and internal controls. Our comments follow:

SUNY DMC has over 4,500 active employees, issues about 122,000 paychecks and payroll advices annually, and has annual payroll expenditures of \$329 million. The report notes overpayments of \$490,257 or .014% of the total payroll for the year. DMC has made a number of changes in its Human Resources and Payroll processes and is committed to strengthening the controls required to mitigate future overpayments from occurring.

For overpayments that have occurred, DMC has made progress in recovering such. As of October 9, 2008, DMC has recovered 62 percent of the value of the sampled overpayments and will pursue payments of the remaining ones. Our comments to the recommendations for overpayments follow:

**Recommendation 1:** Develop and implement comprehensive written policies and procedures for processing payroll changes in a timely manner.

**SUNY Response 1:** DMC agrees with the recommendation. The DMC Human Resources and Payroll units will work together with Information Services to develop and implement written policies and procedures for payroll changes. Additionally, the divisions will conduct user training on policies and procedures. Upon full implementation of the above described policy and procedure, the DMC Internal Audit division will conduct an operational walk-through and review of such.

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

Mr. Steven E. Sossei  
November 5, 2008  
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**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.

**SUNY Response 2:** DMC agrees with this recommendation. Generally, the DMC Payroll division requires completion and submission of timesheets within seven business days after the close of the reporting period. DMC will issue formal reminders to all campus units regarding this requirement. The DMC Payroll division will also develop and implement a policy and procedure requiring that all undistributed payroll checks and direct deposit remittance advices be returned to the Payroll division. The DMC Payroll division will monitor time sheets and undistributed payroll checks and direct deposit remittance advices to identify aberrant payroll distribution. Upon full implementation of the new policy and procedure and monitoring practice, the DMC Internal Audit division will conduct an operational walk-through internal control review and audit.

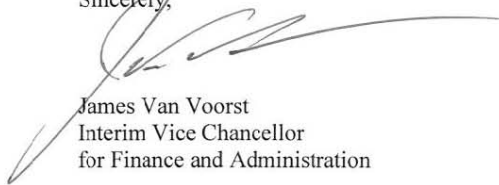
**Recommendation 3:** Comply with OSC Bulletin 470 and immediately notify all employees of an overpayment, which include the correct amount of the outstanding balance owed.

**SUNY Response 3:** DMC agrees with the recommendation. The DMC Human Resources and Payroll units will develop and implement a written policy and procedure compliant with the OSC Bulletin 470. This policy and procedure will delineate the actions to be executed upon the identification of a payroll overpayment including, but not limited to, notification to the individual of such an overpayment.

**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.

**SUNY Response 4:** DMC agrees with the recommendation. As indicated in our response to Recommendation 3, the DMC Payroll unit will develop and implement a written policy and procedure related to the actions to take place in the event of an identified payroll overpayment. Additionally, the DMC Payroll unit will develop and implement a database accounting for identified payroll overpayments, recovery actions, and necessary referrals to the State Attorney General Office.

Sincerely,



James Van Voorst  
Interim Vice Chancellor  
for Finance and Administration

Copy: Dr. Clark  
President LaRosa