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OFFICE OF THE STATE COMPTROLLER

December 31, 2009

Lorraine A. Cortés-Vázquez
Secretary of State
Department of State
One Commerce Plaza
Albany, NY 12231-0001

Re: Report 2009-F-44

Dear Ms. Cortés-Vázquez:

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 Department of State to implement the recommendations contained in our audit report, *Vendor Payment Practices* (Report 2007-S-124).

Background, Scope and Objective

The Department of State (Department) was established in 1778. Historically serving as the State's general recording officer, its mission has grown to include a broad range of activities that coordinate programs with, and provide services to, local government and businesses. It also licenses a variety of professions and occupations. For the fiscal year ended March 31, 2009, the Department had over 900 employees and \$157.6 million in appropriations. During the same fiscal year, it processed 11,581 vouchers totaling \$147 million.

Our initial audit report, which was issued on June 19, 2008, examined payments made by the Department to its vendors, between April 1, 2006 and November 2, 2007, to determine whether late payments and their associated interest expenses could have been avoided. According to Article XI-A of the State Finance Law, agencies are generally required to pay vendors within 30 calendar days after the receipt of a proper invoice, or the date the goods or services are received, whichever is later. This date is referred to as the Merchandise/Invoice Received date (MIR Date). We found that about 20 percent of all vouchers processed during the period were paid late due to delays at the Accounts Payable Unit, as well as delays caused by the program units failing to review and approve invoices in a timely fashion. Additionally, we found that vouchers often had an incorrect MIR date, leading to incorrect calculations of whether interest was due and how much. The objective of our follow-up was to assess the extent of implementation, as of December 16, 2009, of the two recommendations included in our initial report.

Summary Conclusions and Status of Audit Recommendations

Department officials have made progress in correcting the problems we identified in the initial report. However, improvements are still needed. Of the two prior audit recommendations, one recommendation has been implemented and one recommendation has been partially implemented.

Follow-up Observations

Recommendation 1

Establish policies and procedures that provide for the timely payment of vouchers and facilitate the tracking of invoices.

Status - Implemented

Agency Action - In response to our original audit, the Department issued policies and procedures to its Bureau of Fiscal Management (Bureau) staff, explaining how vouchers are to be processed and invoices are to be tracked. In addition, the Bureau sent a memo to the program units, reminding them of the importance of returning receiving reports to the Bureau in a timely manner.

Recommendation 2

Monitor staff to ensure that accurate MIR dates are entered.

Status - Partially Implemented

Agency Action - The Department's policies and procedures for processing vouchers state that the Senior Budgeting Analysts are expected to review MIR dates as part of their overall review and approval of all vouchers submitted to the State Comptroller's Office for payment. However, our review shows that the accuracy of MIR dates continues to be a problem. We selected a random sample of 29 vouchers that were paid on time and 29 vouchers that were paid late. For each of the 58 vouchers in our sample, we reviewed the supporting documentation to determine whether the MIR date entered into the State's Central Accounting System was correct. Of the 58 vouchers we reviewed, 39 had correct MIR dates, 10 had incorrect MIR dates and 9 had insufficient information for us to determine the MIR dates. We further noted that all 10 vouchers with incorrect MIR dates had been processed by the same unit within the Bureau.

Major contributors to this report were Albert Kee, Joel Biederman, Jennifer Paperman and Kelly Evers-Engel.

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 Department for the courtesies and cooperation extended to our auditors during this process.

Very truly yours,

Frank J. Houston
Audit Director

cc: L. Canter, Department of State Internal Audit
T. Lukacs, Division of the Budget