New Jersey State Legislature
Office of Legislative Services
Office of the State Auditor

Department of Military and Veterans Affairs
New Jersey Veterans Memorial Home at Paramus

July 1, 2000 to December 31, 2001

Richard L. Fair
State Auditor
The Honorable James E. McGreevey  
Governor of New Jersey

The Honorable John O. Bennett  
President of the Senate

The Honorable Richard J. Codey  
President of the Senate

The Honorable Albio Sires  
Speaker of the General Assembly

Mr. Albert Porroni  
Executive Director  
Office of Legislative Services

Enclosed is our report on the audit of the Department of Military and Veterans Affairs, New Jersey Veterans Memorial Home at Paramus for the period July 1, 2000 to December 31, 2001. If you would like a personal briefing, please call me at (609) 292-3700.

Richard L. Fair  
State Auditor  
March 8, 2002
# Table of Contents

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Scope</td>
<td>1</td>
</tr>
<tr>
<td>Objectives</td>
<td>1</td>
</tr>
<tr>
<td>Methodology</td>
<td>1</td>
</tr>
<tr>
<td>Conclusions</td>
<td>2</td>
</tr>
<tr>
<td>Findings and Recommendations</td>
<td></td>
</tr>
<tr>
<td>Payroll and Time Reporting</td>
<td>3</td>
</tr>
<tr>
<td>Segregation of Duties</td>
<td>5</td>
</tr>
</tbody>
</table>
Department of Military and Veterans Affairs  
New Jersey Veterans Memorial Home at Paramus

**Scope**

We have completed an audit of the Department of Military and Veterans Affairs, New Jersey Veterans Memorial Home at Paramus for the period July 1, 2000 to December 31, 2001. Our audit included financial activities accounted for in the state’s General Fund and the home’s nonappropriated accounts.

Total annual appropriated expenditures of the home were $18 million. The prime responsibility of the home is to provide nursing care for New Jersey veterans with chronic disabilities. Annual home revenues were $12 million and the major components of revenue were payments received from the Veterans Administration and care and maintenance fees collected from the residents.

**Objectives**

The objectives of our audit were to determine whether financial transactions were related to the home’s programs, were reasonable, and were recorded properly in the accounting systems. We also tested for resolution of significant conditions noted in our prior report.

This audit was conducted pursuant to the State Auditor’s responsibilities as set forth in Article VII, Section 1, Paragraph 6 of the State Constitution and Title 52 of the New Jersey Statutes.

**Methodology**

Our audit was conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States.

In preparation for our testing, we studied legislation, administrative code, circular letters promulgated by the State Comptroller, and policies of the home. Provisions that we considered significant were documented and compliance with those requirements was verified by interview, observation, and through
our samples of financial transactions. We also read the budget message, reviewed financial trends, and interviewed home personnel to obtain an understanding of the programs and internal controls.

A nonstatistical sampling approach was used. Our samples of financial transactions were designed to provide conclusions about the validity of transactions as well as internal control and compliance attributes. Transactions were judgmentally selected.

To ascertain the status of findings included in our prior report, we identified corrective action taken by the home and walked through the system to determine if the corrective action was effective.

**Conclusions**

We found that the financial transactions included in our testing were related to the home’s programs, were reasonable, and were properly recorded in the accounting system. In making this determination, we noted certain internal control weaknesses meriting management’s attention. We also found that the home has resolved the significant issues noted in our prior report.
Payroll and Time Reporting

The home utilizes a computerized hand recognition time clock system to track employee attendance and leave time usage. Our review and tests of this time and attendance system have disclosed errors and omissions in entering leave time usage which resulted in payroll payment errors and inaccurate leave time balances. Also, some supervisors’ casual use of system attendance override (add punches) and nonspecific overtime approval entries resulted in questionable overtime payments and internal control weaknesses. The calculation of overtime hours was not in compliance with the overtime provisions of the collective bargaining agreements.

Our test of 272 time sheets during a single pay period found 18 errors in pay or unposted leave time usage, totaling $1,800 in overpayments and $650 in underpayments. Nine of these errors were attributable to the supervisors inaccurately charging or not charging leave time usage on the system, and the payroll clerk not identifying the error on the system’s time reports. There are no system flags alerting the payroll clerk to time conflicts nor are there easily readable paytime totals to highlight regular and overtime pay hours.

Some of the internal controls afforded through the time clock system, such as employee attendance and supervisory control over scheduling and approving overtime, have been compromised. System controls that restrict employees from punching in too early or punching out too late have not been applied to all employees. When coupled with the common use of the nonspecific overtime approval entry by many supervisors, employee-generated overtime is regularly paid.

Frequent use of control override add punches by some supervisors circumvents the system assurance of employees’ attendance. Although this system
The attendance override feature is a strength in controlling overtime, our test found it was mostly being used to punch the employee in or out at their regular scheduled time. We noted instances where the supervisor’s add punch was used to sign-out employees at the end of their regular shift every day of the tested pay period. Circumstances sometimes occur which may require the legitimate use of the add punch, but it is being used excessively.

The time clock system is not properly programmed to tabulate and report employee overtime hours in compliance with the overtime provisions of the collective bargaining agreements. The overtime provision in all of the agreements state, “An employee who is assigned non-scheduled overtime in excess of fifteen (15) minutes will be guaranteed a minimum of one (1) hour’s work. . . .” Our analysis of overtime hours found it was common for employees to work less than one hour overtime, yet the system did not award the contractually required one hour minimum. We estimate that nine percent of all non-holiday overtime paid during fiscal year 2001, about $57,000, was for incidents of less than one hour. Compliance with the one hour minimum in each of these incidents would have added $90,000 to the overtime payments.

The frequency of overtime assignments of less than one hour is unreasonably high. During a tested two-week pay period, there were 247 such incidents. Although most incidents involved nurses and other care givers where emergencies can occur at the end of a shift requiring an employee to stay, we noted some assignments were for laundry, housekeeping and food service workers. Greater scrutiny given by unit supervisors could reduce these occurrences. Overtime assignments should only occur when the employee is needed and they warrant a minimum of one hour’s work.
**Recommendation**

We recommend the home’s management evaluate the capabilities of the time clock system and determine if programming changes or upgrades could produce reports to aid the payroll clerk in the timely and accurate processing of the payroll, identify time conflicts, and assure compliance with the provisions of the collective bargaining agreements. In addition, supervisors should be instructed on the system’s proper use, including posting of leave time usage, scheduling staff hours, limited use of add punches, and specific approval of overtime hours. They should also be instructed to limit the assigning of overtime to incidents when the employee is needed and warrant a minimum of one hour’s work.

**Auditee’s Response**

We agree with the findings of the audit, which, to some extent, were the result of changes in personnel and management during this time frame. Actions which are being considered or have been taken since the audit include:

- Review of and strengthening of the systems and controls related to the use of times zones, overrides and overtime approval.
- Human Resources and Payroll personnel have been scheduled for training in the Windows version of the KRONOS system.
- The entire staff will be trained in the use and objectives of the payroll systems and Union contract compliance.
- Improved oversight of policies and procedures regarding the use and approval of overtime.

---

**Segregation of Duties**

A lack of segregation of duties exists in the payroll function. Incompatible functions are being performed by the same individuals. The functions of generating, receiving, and distributing payroll checks should be segregated to strengthen internal controls. The payroll clerk and the unit supervisors each have
all these capabilities. Furthermore, there is inadequate monitoring to detect errors or irregularities. Although our test discovered no instances of fraud, these incompatible duties should be segregated.

**Recommendation**

We recommend that the payroll clerk and unit supervisors be restricted from all paycheck custody and distribution duties. The accounting office, which is independent of the payroll function, can receive and sort the checks for distribution to a representative of each unit. The unit representative should be someone other than the supervisor and should retain custody of the checks until they are distributed to each employee. All unclaimed checks should be returned directly to the accounting office for proper disposition.

**Auditee’s Response**

There is a need for segregation of duties and the distribution of the checks by a department other than Payroll. We are currently reviewing our alternatives and will make a determination in the very near future as to who and how this will be accomplished.