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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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**DIVISION OF MILITARY  
AND NAVAL AFFAIRS**

**QUALITY OF INTERNAL  
CONTROL CERTIFICATION**

**Report 2008-S-112**

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## AUDIT OBJECTIVE

Our objective was to determine whether the Division of Military and Naval Affairs (DMNA) submitted a quality internal control certification to the Division of Budget by April 30, 2008.

## AUDIT RESULTS - SUMMARY

The Division of Budget (DOB) requires agencies to certify compliance with the State's Internal Control Act annually by submitting an internal control certification, which includes both an internal control summary report as well as a signed certification to attest that they met required internal control provisions.

We determined DMNA submitted a quality internal control certification to DOB by April 30, 2008. The DMNA certification addressed all the requirements of Budget Policy and Reporting Manual Item B-350 including a detailed responses to questions in the Internal Control Summary that and Internal Control Task Force recommendations. During our review, we found adequate support to confirm the information in the certification was accurate.

This report, dated September 25, 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

Internal controls are the integration of the activities, plans, attitudes, policies, and efforts of the people of an organization working

together to provide reasonable assurance that the organization will achieve its objectives and mission. While the overall purpose of internal control is to help an organization achieve its mission, internal control also helps an organization to promote orderly, economical, efficient and effective operations, and produce quality products and services consistent with the organization's mission; safeguard resources against loss due to waste, abuse, mismanagement, errors and fraud; promote adherence to laws, regulations, contracts and management directives; develop and maintain reliable financial and management data, and accurately present that data in timely reports.

The Division of Budget's Budget Policy and Reporting Manual Bulletins B-350 and B-1177 require the head of each covered State agency and public authority to certify compliance with the State's Internal Control Act by April 30 of each year by submitting a Certification and Internal Control Summary of the internal control activities undertaken during the previous year. The current requirements in the BPRM B-350 internal control certification has been updated with a list of agencies required to establish and maintain an internal audit function and also requires agencies identify specific actions taken to implement each of the recommendations in the Internal Control Task Force report "*The New York State Internal Control Act Implementation Guide: Strengthening Compliance with the Act and Standards.*" These recommendations include specific guidance for agencies, the Internal Control Task Force, NYS Division of Budget and the NYS Comptroller's Office. The recommendations were developed to provide agencies with an improved level of assurance that an appropriate set of controls are in place within the agency and are functioning properly. Recommendations directed toward agencies relate to internal control

coordination, implementation, education and training as well as internal audit organization, staffing, processes, and continuing education. The mission of DMNA is to: "Provide forces to execute global missions across full spectrum operations as directed in support of our communities, civil authority and National Military and Homeland Security Strategies."

DMNA is a state agency that serves as the headquarters for New York's militia forces (the Army National Guard, the Air National Guard, the New York Guard and the New York Naval Militia). In addition, it performs federal functions required to support the Army and Air National Guard. Division of Military and Naval Affairs personnel, military and civilian, serve under The Adjutant General, who must be an Army or Air National Guard commander and who is responsible to the Governor for proper administration and for assuring the New York militia is prepared to perform emergency state roles as directed by the Governor. The Adjutant General is also responsible to the Department of Defense for assuring the military training and preparedness of the Army and Air National Guard units in New York. The National Guard is, by national policy, an integral part of America's military forces. The New York Army National Guard provides combat units of almost all types, combat support elements, and a variety of specialized services. Nonetheless, the Guard is a fundamentally a "state" entity.

The current DMNA Internal Control Officer (ICO) has been in her position since March 2008. The previous ICO coordinated the implementation of an enhanced risk assessment program and designed a formal presentation program for reporting the status of DMNA internal control program to The Adjutant General.

## AUDIT FINDINGS

### *Quality of Internal Control Certification*

The Division of Budget(DOB) requires agencies to certify compliance with the State's Internal Control Act annually by submitting an internal control certification, which includes both an internal control summary report as well as a signed certification to attest that they met required internal control provisions.

In order to determine if DMNA submitted a quality certification, we reviewed the certification to see if they followed the certification instructions outlined in the Budget Policy and Reporting Manual Item B-350, and followed the internal control requirements outlined in the NYS Internal Control Act Implementation Guide and the Internal Control Task Force Recommendations in the Standards for Internal Control in New York State Government which are the basis for the certification. We also determined a quality certification should show evidence an agency responded to all the questions, provided explanation and detail when required, and answered the questions accurately.

To assure accuracy of the information reported, we reviewed supporting documentation, provided by DMNA, for the certification submitted for 2007-08.

We determined DMNA submitted a quality internal control certification to DOB by April 30, 2008. The DMNA certification addressed all the requirements of Budget Policy and Reporting Manual Item B-350 including detailed responses to questions in the Internal Control Summary and Internal Control Task Force recommendations. During our review, we found adequate

support to confirm the information in the certification was accurate.

### Certification

The internal control summary report asks agencies to respond to a series of questions regarding the agency's internal control system and also requests information on the specific actions taken by the agency to implement the recommendations made by the Internal Control Task Force. Most of the questions require the agency to provide detailed responses.

The responses provided by DMNA on the internal control summary were detailed and offered specific information relating to the questions. For example, when asked to *Describe the measures instituted to sustain the effectiveness of the internal control program during 2007-08.*, DMNA responded:

“During reporting year 2007-08 DMNA commenced a 100% re-evaluation of its Internal Control Program using a four step process to (1) facilitate the identification of agency functions and objectives, (2) assess agency risks and vulnerabilities, (3) review existing controls and (4) take appropriate steps to correct weaknesses. DMNA adopted two new internal reporting forms to assist managers in conducting their department's annual self-evaluation. Beginning SFY08, the agency established a full-time Internal Control Specialist position to refine, enhance and validate their commitment to DMNA's program for internal controls.”

In another example, DMNA submitted a fully documented road map outlining required modifications and respective status for each recommendation made by the Internal Control Task Force. Specifically, one recommendation stated that the DMNA internal control program should establish a

process for identifying improvement areas, corresponding corrective actions and implementation status of all corrective actions. DMNA responded to this recommendation that they implemented the use of a standardized form. The new form is to provide a medium for unit managers to identify areas that require improvement and propose corrective actions. Proposed corrective actions are tracked internally by Assessable Unit Managers and by the ICO via the Management Control Plan (MCP).

### Supporting Documentation

We found DMNA had adequate documentation to support their certification.

For example, DMNA provided a copy of their Internal Control Program (PAM 11-2) which provides a step by step outline of the DMNA internal control process.

Also, during reporting year 2007-08 DMNA commenced a 100% re-evaluation of its State Internal Control Program. The revised program calls for the Directors to routinely evaluate their programs and conduct formal annual evaluations. To accomplish this task and as recommended by the Internal Control Task Force, DMNA adopted two new internal reporting forms to assist the Directors and respective Assessable Unit Manager in conducting annual self-evaluations at the functional level. The new forms require detailed descriptions of functions, associated risks and vulnerabilities, along with appropriate supervisory signoffs. The Assessable Unit Managers also verify that control procedures outlined on the standardized forms are operational and functioning as intended in actual practice. An independent review process of the risk/vulnerability assessments and internal control evaluations is then conducted by the ICO based on the Management Control Plan

(MCP) report. A five-year MCP report, listing each proponent and respective functions evaluation schedule, is maintained for internal control purposes.

To determine if DMNA could support its certification, we requested documentation reflecting the current five-year MCP. We found the MCP report contained a list of proponents and functions, the schedule for their review and statements regarding corrective actions plans. Also the MCP indicates that based on the determined level of risk, a high risk function will receive annual review, medium risk every other year, and low risk will be reviewed every third year.

In addition to meeting with Directors and using the MCP in the independent review process, the prior ICO reported the results of his review to The Adjutant General using a power point presentation. We reviewed the presentations slides and found the presentation to be effective in stating the requirements of the Internal Control Certification and the information reported by DMNA for the 2007-08 certification.

We also reviewed the completed standardized forms used to identify primary unit functions, objectives, risks, vulnerabilities and existing controls forms. We found these forms to be detailed and thoroughly documented including appropriate signatures indicating supervisory review.

As part of its internal control program, DMNA requires each employee, on an annual basis, to sign a statement stating that they understand their role and responsibility regarding the DMNA Internal Control Program. The DMNA Directors and Assessable Unit Managers are responsible for providing each employee with copies of the Internal control Program including a "Statement of Management Standards" to

read and review. After reviewing this document, employees indicate their understanding of the program by signing a written statement. DMNA provided a copy of both the management standards statement and the employee signed written statements.

DMNA also supplied a copy of a tone at the top letter issued by The Adjutant General. In the memorandum, The Adjutant General states the commitment that DMNA has toward the implementation of an effective system of internal controls to accomplish the mission of the Agency.

### **AUDIT SCOPE AND METHODOLOGY**

We conducted our performance audit in accordance with generally accepted government auditing standards. We audited the quality of DMNA's 2007-08 B-350 Internal Control Certification. To do our audit we interviewed agency officials to learn about their control activities and reviewed all documentation of internal controls provided by DMNA to support their certification.

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 who 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 management functions do not affect our ability to conduct independent audits of program performance.

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### **AUTHORITY**

The audit was performed 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.

### **REPORTING REQUIREMENTS**

Draft copies of this report were provided to DMNA officials for their review and comment. Their comments were considered in preparing this report and are included as Appendix A.

### **CONTRIBUTORS TO THE REPORT**

Major contributors to this report include David R. Hancox, Walter Irving, Melissa Little, Thalia Melendez, Sally Perry and Constance Walker.

## APPENDIX A - AUDITEE RESPONSE



STATE OF NEW YORK  
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LATHAM, NEW YORK 12110-3514

DAVID A. PATERSON  
GOVERNOR  
COMMANDER IN CHIEF

SEP 08 2008

JOSEPH J. TALUTO  
MAJOR GENERAL  
THE ADJUTANT GENERAL

Mr. David R. Hancox  
Audit Director  
Office of the State Comptroller  
Division of State Government Accountability  
110 State Street, 11<sup>th</sup> Floor  
Albany, NY 12236

Dear Mr. Hancox:

This letter is in response to the draft audit report for the Division of Military and Naval Affairs (DMNA) on the Quality of Internal Control Certification – Report 2008-S-112. As indicated in the audit report, DMNA is committed to a strong system of internal controls. DMNA will continue its compliance with the New York State Governmental Accountability, Audit and Internal Control Act of 1987.

We are pleased with the results of your audit. DMNA will proceed forward with its successful internal control program and will continue to heighten the success of the existing program. DMNA will enhance the internal control program by continual training for all employees, quarterly internal control briefings and sustaining its membership with the New York State Internal Control Association.

If you require any additional information please contact Ms. Jennifer Winters, Internal Control Officer at: (518) 786-4673.

Sincerely,

A handwritten signature in black ink, appearing to read 'Joseph J. Taluto', written over a circular stamp or seal.

Joseph J. Taluto  
Major General, New York Army  
National Guard  
The Adjutant General

Copy Furnished:

Mr. Michael Balboni, Office of Homeland Security  
Mr. Tom Lukacs, Division of the Budget