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STATE OF NEW YORK  
OFFICE OF THE STATE COMPTROLLER

July 7, 2015

Mary Beth Labate  
Director  
Division of the Budget  
State Capitol Building  
Albany, NY 12224

Re: Quality of Internal Control Certifications  
Report 2015-F-7

Dear Ms. Labate:

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 State officials to implement the recommendations contained in our series of 12 State agency audit reports entitled *Quality of Internal Control Certifications*, which we conducted in 2012.

**Background, Scope and Objective**

Internal control is 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.

In 1987, the Legislature passed the New York State Governmental Accountability, Audit and Internal Control Act (Act) requiring each State agency to institute a comprehensive system of internal controls over its operations. The Division of the Budget's (DOB) Budget Policy and Reporting Manual Bulletin B-350 requires the head of each covered agency to certify compliance with the Act by April 30 of each year by submitting a Certification and Internal Control Summary describing the internal control activities undertaken during the previous year.

As the State's chief fiscal officer, the Comptroller also has several responsibilities under the Act, including providing technical assistance to agencies and conducting audits of internal controls, and issuing the Standards for Internal Control in New York State Government (Standards). The Standards have been developed in part from those advocated by leading authorities in the field of internal control, such as the Committee of Sponsoring Organizations of the Treadway Commission (COSO), the US Government Accountability Office (GAO), and other professional organizations.

In 2012, we conducted a series of audits at 12 State agencies that focused specifically on the 2011-2012 Internal Control Certifications submitted to DOB. We examined whether these agencies submitted their certifications on time, answered all the questions with the appropriate level of detail, and maintained documentation that supported the answers given. The 12 audits were performed at the following State agencies:

- the Department of Agriculture and Markets (DAM), (2012-S-47)
- the Department of Economic Development (DED), (2012-S-48)
- the State Education Department (SED), (2012-S-45)
- the Division of Housing and Community Renewal (DHCR), (2012-S-31)
- the Office of the Medicaid Inspector General (OMIG), (2012-S-46)
- the Office of Mental Health (OMH), (2012-S-43)
- the Office of Parks, Recreation and Historic Preservation (OPRHP), (2012-S-49)
- the Office for People with Developmental Disabilities (OPWDD), (2012-S-44)
- the Office for the Prevention of Domestic Violence (OPDV), (2012-S-41)
- the Division of State Police (DSP), (2012-S-128)
- the Department of State (DOS), (2012-S- 50) and
- the Office of the Welfare Inspector General (OWIG), (2012-S-42)

At 10 of the 12 agencies we examined, we concluded that some level of improvement was needed in at least one qualitative aspect of their Internal Control Certification. Several agencies had not submitted their certification timely, while others did not provide the appropriate level of detail to adequately answer the questions posed to them to describe the systems they had in place. Two agencies were also unable to provide evidence to support certain critical statements that had been made in their certifications. We also found instances where agency internal audit units had not had an external peer review required by professional audit standards; where duties associated with the internal control and internal audit functions were not properly separated; and a lack of agency wide internal control training. The objective of our follow up was to determine the degree of implementation by each agency of the seven common recommendations included in our series of 12 reports.

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

In submitting their 2013-14 Internal Control Certifications, we found agency officials made significant progress in addressing the problems identified in our initial audit reports. Of 12 agencies originally audited, two (OMIG and OWIG) had no recommendations, seven had implemented all of our recommendations, and only three (DHCR, OPRHP, and DSP) still had work left to do. In total, of the 23 recommendations included in our original audit reports, 19 were

implemented, 3 were partially implemented, and one was not implemented, as summarized in the following table.

State Agency	Total Number of Recommendations	Implemented	Partially Implemented	Not Implemented
DAM	3	3		
DED	2	2		
SED	1	1		
DHCR	4	3	1	
OMIG	0			
OMH	2	2		
OPRHP	5	3	1	1
OPWDD	1	1		
OPDV	1	1		
DSP	3	2	1	
DOS	1	1		
OWIG	0			
<b>Total</b>	<b>23</b>	<b>19</b>	<b>3</b>	<b>1</b>

### **Follow-Up Observations**

#### **Recommendation 1**

*Re-examine agency priorities to accommodate timely submission of the Internal Control Certification.*

Agency Action - Four of the 12 agencies we examined (DAM, OPWDD, OPRHP, and SED) did not meet the April 30 deadline to submit their 2011-12 certifications. We reviewed the 2013-14 certification submissions and found that these four agencies implemented this recommendation and submitted their Internal Control Certifications on time.

#### **Recommendation 2**

*Provide appropriately detailed responses to questions as requested in the annual Internal Control Certification.*

Agency Action - Seven of the 12 agencies did not provide the required level of detail for all questions in their 2011-12 certifications, as follows:

- DAM's certification did not describe actions it will take to address its partial compliance assessment of its internal audit function.
- DED's certification did not adequately describe its process for testing internal controls, monitoring corrective actions plans, or the result of its review of high-risk functions.
- DHCR's certification did not fully explain how the Standards had been integrated into its

internal control program and how specific risks and corrective action plans were being monitored.

- DSP's certification did not provide the required list of deficiencies during its review of high-risk areas. It also did not identify unresolved recommendations from internal audits or provide a full explanation of why they were not implemented.
- OMH's certification did not describe the results of the reviews conducted on high-risk activities.
- OPDV's certification did not explain how it monitors corrective actions taken to address control deficiencies.
- OPRHP's certification did not list all of the high-risk areas reviewed or the results of those reviews.

We reviewed the level of detail in the responses to questions in the 2013-14 Internal Control Certification for these seven agencies and determined that all seven agencies implemented this recommendation and now provide the appropriate level of detail.

### **Recommendation 3**

*Ensure all statements contained in the Internal Control Certification are supported by sufficient and appropriate documentation.*

Agency Action - Two of the 12 agencies could not provide appropriate documentation to support statements contained in the 2011-12 Internal Control Certification, as follows:

- OPRHP failed to provide evidence of communication of the Internal Control Officer designee to all staff. OPRHP also could not provide evidence that appropriate internal control training was provided to all employees.
- DSP did not maintain documentation of participation in training courses related to internal controls and could not provide evidence demonstrating the Superintendent's consistent communication to staff in support of internal controls.

We followed up with these two agencies and determined that both have implemented this recommendation. There is now support for the statements made in their Internal Control Certifications.

### **Recommendation 4**

*Establish an ongoing Internal Control Training Program that encompasses all staff.*

Agency Action - Three of the 12 agencies (DAM, DHCR, and DOS) did not have an Internal Control training program that covered all staff contained in their 2011-12 Internal Control Certification. All three agencies have implemented this recommendation and each now uses the Statewide Learning Management System to provide internal control training to all staff levels.

### **Recommendation 5**

*Ensure that compliance testing and monitoring systems are in place. When necessary, ensure corrective action is taken and monitored.*

Agency action - In their 2011-12 Internal Control Certifications, two of the 12 agencies did not have compliance testing and monitoring systems in place and were not monitoring corrective actions to ensure completion.

- We determined that DHCR implemented this recommendation. We reviewed documentation that showed testing of controls and corrective action plans where weaknesses were found in the existing control. We also observed the Internal Control Officer's (ICO) calendar entries that showed him meeting with different units and monitoring corrective action plans.
- We determined that OPRHP partially implemented this recommendation. We reviewed documentation supplied as a part of the 2012-13 and 2013-14 Internal Control Certifications. We found that although OPRHP identified significant risks, corrective action plans, and target completion dates, there was no evidence of ongoing monitoring of corrective action plans. We did find one instance where OPRHP followed up on the status of corrective action plans in November 2013. However, OPRHP could not provide evidence that continued monitoring has taken place after November 2013. OPRHP should implement a system that provides ongoing monitoring of corrective action plans and ensures that necessary controls are added to mitigate significant risks.

### **Recommendation 6**

*Ensure that the internal audit function undergoes required external quality assessments.*

Agency Action - In their 2011-12 Internal Control Certifications, three of the 12 agencies did not undergo the required external quality assessments.

- We determined that DED implemented this recommendation. An external quality assessment was performed in June 2014.
- We determined that OPRHP did not implement this recommendation and has not yet had an external quality assessment. In January 2011, OPRHP's Audit Charter was rescinded, thereby eliminating the authority of the Internal Audit Bureau. In September 2013, OPRHP hired a new Internal Audit Director and signed a new Audit Charter. OPRHP officials stated that an external quality assessment has not been completed because the new Audit Charter has not been in place long enough. However, they do plan on having an assessment done in 2017.
- We determined that DSP partially implemented this recommendation. The DSP undergoes a periodic accreditation review by an outside police agency. While this review does include some review of the Internal Audit function, it is unclear that it meets the requirements for an external quality assessment.

## **Recommendation 7**

*Separate the duties associated with the internal control and internal audit functions.*

Agency Action - In their 2011-12 Internal Control Certifications, two of the 12 agencies did not adequately separate the duties associated with the internal control and internal audit functions.

- We determined that OMH implemented this recommendation by designating the Executive Deputy Commissioner as the Internal Control Officer (ICO). Additionally, because OMH provides inpatient and outpatient mental health services at 24 facilities and research centers throughout New York State, the agency has designated an ICO at each location to help coordinate the internal control activities.
- We determined that DHCR partially implemented this recommendation. DHCR made an improvement in separating the duties associated with the internal control and internal audit functions because the Director of Internal Audit is no longer the ICO. However, the ICO is still a member of the Office of Internal Audit. Due to the large workload, the ICO has to perform audit functions on some occasions. DHCR officials state that due care is taken to assure that the ICO does not get involved with the design, installation, and creation of procedures or operation of management systems or processes.

Major contributors to this report were Walter Irving, Amanda Strait, Kathleen Garceau, Jason Dessureault, Anne Marie Miller, and Mark Womeldorph.

We thank the management and staff of the 12 agencies we examined for the courtesies and cooperation extended to our auditors during this review. We would appreciate a written response to this report within 30 days from each of the three agencies that have not yet fully implemented our recommendations (DHCR, OPRHP, and DSP), indicating any actions planned to address the unresolved issues discussed in this report.

Sincerely,

John F. Buyce, CPA, CIA, CFE, CGFM  
Audit Director

cc: Richard Ball, Commissioner - Department of Agriculture and Markets  
Howard Zemsky, Commissioner - Department of Economic Development  
MaryEllen Elia, Commissioner - State Education Department  
James Rubin, Commissioner - Division of Housing and Community Renewal  
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Ann Marie Sullivan, MD, Commissioner - Office of Mental Health  
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Kerry Delaney, Commissioner - Office for People With Developmental Disabilities  
Gwen Wright, Executive Director - Office for the Prevention of Domestic Violence  
Joseph D'Amico, Superintendent - Division of State Police  
Cesar Perales, Secretary of State  
Catherine Leahy Scott, Acting New York State Welfare Inspector General