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STATE OF NEW YORK
OFFICE OF THE STATE COMPTROLLER

October 21, 2004

Ms. Joan A. Cusack
Chairwoman
NYS Crime Victims Board
845 Central Avenue, Room 107
Albany, New York 12206-1588

Re: NYS Crime Victims Board Internal
Controls Over Financial Operations
Report 2003-S-54

Dear Ms. Cusack:

According 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 audited the New York State Crime Victims Board's system of internal controls over its financial operations for the period April 1, 2002 through March 31, 2004.

A. Background

The New York State Crime Victims Board (Board) was created under Article 22 of the Executive Law on August 1, 1966. The Board's principal mission is to provide financial assistance to victims for losses they suffer as a result of violent crime. The Board provides grants to local agencies that assist witnesses and victims, and serves as the State's advocate for crime victims' rights, needs and interests. The Board consists of five members, appointed by the Governor to seven-year terms, who work full-time to administer the Board and to make final decisions on victim compensation awards. The Governor designates one Board member as the chair. The Board has primary offices in Albany and New York City and a satellite office in Buffalo. Each office processes victim claims and provides grant program aid and advocacy services on a regional basis in support of the Board's mission.

For the State fiscal year ended March 31, 2004, the Board had a State budget of \$6.1 million and a staff of 103, including the five Board members. The Board administered about \$63.1 million in Federal aid and revenues from offenders to support compensation payments to victims and local grants to programs assisting victims with treatment and other services. The Board operates three programs. The Payment to Victims Program compensates individual crime victims for violent crime-related losses. The Victims and Witness Assistance Program administers grants to local agencies. The Administration Program provides executive direction and administrative support to the Board, as well as advocacy services for crime victims.

B. Audit Scope, Objectives and Methodology

Pursuant to the New York State Governmental Accountability, Audit and Internal Control Act of 1987 (Act), as revised in 1999, the Board's management is responsible for establishing and maintaining an effective system of internal controls and a program of internal control review. We audited the Board's system of internal controls over its financial operations for the period April 1, 2002 through March 31, 2004. The objectives of our audit were to assess the adequacy of the Board's system of internal controls over its financial operations and to express an opinion of this system based upon our audit.

Our audit was conducted in accordance with Generally Accepted Government Auditing Standards. Accordingly, we examined, on a test basis, evidence supporting management's assertions to us in its representation letter about its system of internal controls over the Board's financial operations and performed other procedures we considered necessary in the circumstances. In particular, we performed tests to determine whether management has established policies and procedures that provide an appropriate level of internal control over basic financial operations and to determine whether Board employees follow those policies and procedures. To accomplish these objectives, we interviewed appropriate Board officials and reviewed applicable policies and procedures governing the following significant financial operations: revenue and collections; cash and investments; payroll and human resources; procurement and contracting; equipment and asset management; budgeting and expenditure control; and accounting and information systems. We interviewed Board staff responsible for these financial operations and performed limited compliance testing to provide assurance that Board employees follow established policies and procedures. We believe our audit provides a reasonable basis for our opinion.

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, several of which are performed by the Division of State Services. 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 management functions do not affect our ability to conduct independent audits of program performance.

C. Results of Audit

In our opinion, the Board's system of internal controls over its financial operations is adequate in all material respects. However, we noted several instances in which the Board could either improve its system of internal controls or strengthen the adherence to existing policies and procedures.

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. More specifically, the four purposes of internal control are:

- to promote orderly, economical, efficient and effective operations and to produce quality products and services consistent with the organization's mission;
- to safeguard resources against loss due to waste, abuse, mismanagement, errors and fraud;
- to ensure adherence to laws, regulations, contracts and management directives; and
- to develop and maintain reliable financial and management data, and to accurately present that data in timely reports.

An effective system of internal controls has five major components: Control Environment; Communication; Assessing and Managing Risk; Control Activities; and Monitoring. Below is our assessment of the Board's activities in each of these five major components.

1. Control Environment

Control environment is the attitude toward internal control and control consciousness established and maintained by the management and the employees of an organization. It is a product of management's philosophy, style and supportive attitude, as well as the competence, ethical values, integrity, and morale of the organization's people. The organization structure and accountability relationships are key factors in the control environment.

The Board has a strong control environment in the areas of: cash and investments; procurement and contracting expenditures; payroll and human resources; budgeting and expenditure control; and accounting and information systems. In these areas, management has established and communicated adequate policies and procedures. Our testing confirmed that such policies and procedures are in place and used by Board staff. In addition, the Board has hired competent staff to perform these duties and provides the necessary training to ensure these employees can perform their jobs effectively.

We did identify one problem that requires management's attention. State agencies and authorities must annually certify their compliance with important provisions of internal control to the Division of the Budget (DOB) in accordance with Budget Policy and Reporting Manual Item B-350. It also must provide an action plan that identifies the steps it will take to achieve this compliance. The Board is not in compliance with this requirement. Board officials indicated that the certifications for the fiscal years ended March 31, 2003 and March 31, 2004 would be completed in June 2004.

2. Communication

Communication is the exchange of useful information between and among people and organizations to support decisions and coordinate activities. Within an organization, information should be communicated to management and employees who need it in a form and within a time

frame that helps them to carry out their responsibilities. Communication also takes place with outside parties such as customers, suppliers and regulators.

The Board has appropriate communication in the areas of: cash and investments; procurement and contracting expenditures; and payroll and human resources. Management has taken measures to put the Board's policies and procedures into writing for these areas. Additionally, the Board's management has verbally communicated these policies and procedures to Board employees.

An important element of communication is to prepare written policies and procedures for all important functions and disseminate these policies and procedures to all staff with responsibilities in the various functions. We found that Board management and staff followed proper policies and procedures for their budget process, their accounting and information systems, and for privacy issues. However, these policies and procedures are not written. As a result, these policies and procedures are not available for reference by current staff and may not be adequately conveyed to new staff. Board management indicated that it is preparing written policies and procedures for these areas, but they are not complete at this time.

We also identified problems with the Board's equipment and asset management. Prior to 2001, one clerk was responsible for all Board equipment. Since then, Board management has designated its Management Information Systems (MIS) unit to be responsible for the computer equipment inventory process. However, according to the MIS unit staff, no written or verbal directions were given to them on how to perform this task. As a result, we found that the computer inventory was not complete because the MIS unit was tracking the equipment that was assigned to specific individuals and/or locations, but was not tracking items that had yet to be placed in service or had been taken out of service. As a result, the computer inventory listings were neither complete nor accurate.

3. Risk Assessment

Risks are events that threaten the accomplishment of objectives. They ultimately impact an organization's ability to accomplish its mission. Risk assessment is the process of identifying, evaluating and determining how to manage these events. At every level within an organization, both internal and external risks could prevent the accomplishment of established objectives. Ideally, management should seek to prevent these risks. However, sometimes management cannot prevent the risk from occurring. In such cases, management should decide whether to accept the risk, reduce the risk to acceptable levels, or avoid the risk. To have reasonable assurance that the organization will achieve its objectives, management should ensure each risk is assessed and handled properly.

The Board effectively manages risk in cash and investments and in procurement and contracting. These areas have prepared risk assessments and performed tests of controls on a regular basis. For cash and investments, we saw evidence of appropriate documentation of all tested receipts and disbursements. Procurement and contracting expenditures followed appropriate methods of requisition approval, quotes, and bidding when necessary. We believe these actions mitigate the overall risk in these audit areas.

Risk assessments should take place over all areas of the Board's operations. The Board has not performed risk assessments of the following operations: revenue and collection activities; payroll and human resources; budgeting and expenditure control; and equipment and asset management, except for the controls over vehicle use. Board management recognizes the need to perform risk assessments in all areas, but has not performed these assessments for the above listed areas.

The Board has performed a risk assessment of its accounting and information systems. However, management responsible for these operations has not committed the assessments to writing, as strong internal controls require. Committing these risk assessments to writing increases management's ability to accurately identify risks and to take appropriate actions to mitigate these risks.

4. Control Activities

Control activities are tools - both manual and automated - that help prevent or reduce the risks that can impede the accomplishment of an organization's objectives and mission. Management should establish control activities to effectively and efficiently accomplish the organization's objectives and mission.

Board management maintains appropriate control activities in the areas of: cash and investments; payroll and human resources; and budgeting and expenditure control. In these areas, the Board has developed appropriate written procedures, communicated them to appropriate staff, provided supervision to the staff, and properly separated duties within these functions. Our audit testing confirmed that these activities are occurring. However, we identified weaknesses in the areas of revenue and collection activities, procurement and contracting expenditures, and equipment and asset management.

The Board makes monetary awards to victims of violent crimes to cover their medical costs, lost wages, and other costs incurred by them. When these awards are made, the victims sign liens that allow the Board to recover some or all of these funds if the courts award restitution to the victims from the perpetrators. At present, the Board attempts to identify potential recoveries from victims through the following process. Each week, the Board prepares listings for each county district attorney of all new applications received by the Board that week from victims who identify a known perpetrator for the crime in their applications. The district attorneys then review the cases and report to the Board the status of each case and whether the case has been resolved with restitution ordered by the court. A Board employee inputs into the Board's database any results received from the district attorneys. The process is time consuming for both the Board and the district attorneys. In addition, if no resolution exists when the case is first reported to the district attorneys, any subsequent resolution may not be reported to them later, since the case is only sent to the district attorneys once, the first week it is received by the Board. As a result, the Board has no assurance that it can identify, bill and collect from all victims awarded restitution.

At present, the Board collects about \$130,000 annually in restitution payments made to victims who have received awards from the Board. Board management should work with the courts, the Division of Probation and Correctional Alternatives (Probation), the Division of Parole (Parole), and the Department of Correctional Services (Corrections) to develop a system that better identifies

victims awarded restitution by the courts. The Board should then formalize these policies and procedures in writing and communicate them to the Board staff responsible for billing and collecting these funds.

Equipment and asset management policies and procedures provide for an adequate separation of duties. However, the policies do not address equipment transfers between offices. During our testing, we found that one computer was listed on the inventory records for the New York City office. When we attempted to locate this item at that office, we were informed that it was transferred to the Buffalo office more than a year ago. Thus, a transaction over one year old had not been reflected in the inventory records. In addition, although OSC Bulletin A-476 requires State agencies to report all lost or stolen equipment items to OSC, the Board does not have policies and procedures that address this requirement. During our testing, we were informed that a laptop computer had been lost in 2002; however, this incident was not reported to OSC, as required. Not reporting transferred, lost, or stolen equipment leads to inventory discrepancies. The Board should develop written policies covering equipment transfers and lost or stolen equipment and ensure that all staff are informed of these policies.

5. Monitoring

Monitoring is the review of an organization's activities and transactions to assess the quality of performance over time and to determine whether controls are effective. Management should focus monitoring efforts on internal control and achievement of organization objectives. For monitoring to be most effective, all employees need to understand the organization's mission, objectives, and responsibilities and risk tolerance levels.

The Board adequately monitors its payroll and human resources, budgeting and expenditure control, and accounting and information systems. Staff review every payroll register to ensure that all regular and overtime hours worked, and leave accruals used are accurately recorded. Management monitors expenditure and revenue levels against their approved budget levels monthly. The Board has proper systems in place to monitor employee activity on computer systems and to block inappropriate Internet usage.

Approved advance fund accounts should be reconciled with their approved fund balances on a monthly basis. The Board has four advance accounts: one petty cash account and three emergency award accounts. While the Board performs bank reconciliations for these accounts monthly, it does not regularly reconcile these accounts to their OSC approved funding levels. The petty cash account has not been reconciled to the appropriate amount since current management took over this function. We performed a fund-level reconciliation, as of January 31, 2004, and found that the petty cash fund was more than \$1,000 short of its approved funding level of \$1,550. Board staff were unable to fully reconcile this difference as of the end of our fieldwork.

All State credit card charges incurred for Board-approved travel should be supported by and matched to corresponding travel vouchers. Board procedures require all credit card charges to be reconciled to their appropriate source documents. During our testing of Board travel expenditures, we identified two instances in which a credit card charge either was not supported by a corresponding travel voucher or differed from the amount reported on the travel voucher. In

addition, we identified two instances in which a Board member received both a daily per diem of \$100, which covered her room and board, and credit card reimbursement for her hotel room for the day. Board staff should follow proper procedures and reconcile all credit card charges paid by the State to the appropriate travel documents and resolve any discrepancies with the credit card company. Board members should follow proper reimbursement procedures for the travel expenses they incur.

Good internal controls require that organizations perform periodic physical inventories of their equipment and reconcile these inventories with existing inventory records. Management should resolve any discrepancies and adjust the records as necessary. This process helps to ensure the accuracy of the inventory records and helps management monitor staff adherence to existing equipment policies and procedures. The Board performed one inventory of its equipment in the Albany office in 2002 and no inventories in its New York City or Buffalo offices.

Recommendations

1. *Complete and submit the annual internal control certifications to DOB for 2003 and 2004. In addition, complete an action plan for complying with item B-350 and submit it to DOB as soon as possible.*

(Board officials responded to our draft report that the certificates will be submitted within the next eight weeks.)

2. *Commit to writing the policies and procedures for the budgeting process, the accounting and information systems, and for privacy issues. Communicate the policies to all staff involved in these functions.*
3. *Establish proper written equipment control procedures and communicate these procedures to all staff with responsibilities in the function.*

(Regarding Recommendations 2 and 3, Board officials responded to our draft report that they are in the process of updating all existing and writing any outstanding policy and procedure manuals for the agency. Upon completion, the information will be shared with the appropriate staff.)

4. *Perform written risk assessments for the revenue and collection, payroll and human resources, budgeting and expenditure control, and equipment and asset management operations.*
5. *Commit to writing risk assessments performed for the accounting and information systems functions.*

(Regarding Recommendations 4 and 5, Board officials responded to our draft report that they expect to perform risk assessments of all appropriate areas and include them in the next certification report.)

6. *Work with the courts, Probation, Parole and Corrections to improve the system that*

informs the Board of all restitution orders made by courts to the victims of violent crimes. Establish and communicate a system for using this information to bill and collect restitution payments from the victims or the appropriate State agencies.

(Board officials responded to our draft report that they will continue to work with the various agencies in this area.)

7. *Establish written policies and procedures for recording the transfers of equipment between Board offices and to report lost or stolen equipment to OSC.*

(Board officials responded to our draft report that they will update their policies and make them available to staff.)

8. *Reconcile all advance funds to their OSC-approved balances monthly. Notify OSC of the amount that the petty cash fund is out of balance and request that the account be funded to its approved level.*

(Board officials responded to our draft report that they have reconciled the account and will keep it current.)

9. *Ensure that Board members follow existing procedures and reconcile all credit card charges for travel expenses to the travel vouchers and documentation submitted by the traveler.*

10. *Perform periodic physical inventories of the Board equipment at all three offices. Reconcile these inventories with the equipment inventory records for each office and resolve any discrepancies.*

(Regarding Recommendations 9 and 10, Board officials responded to our draft report that they agree and will take action.)

We provided a draft copy of this report to Board officials for their review and comment. Their comments have been considered in preparing this report, and are included as Appendix A. Board officials indicated that they generally agreed with the recommendations contained in this report and have begun taking actions to implement them.

Within 90 days after final release of this report, as required by Section 170 of the Executive Law, the Board Chairperson shall report to the Governor, the State Comptroller, and the leaders of the Legislature and fiscal committees, advising what steps were taken to implement the recommendations contained herein, and where recommendations were not implemented, the reasons therefor.

Major contributors to this report were John Buyce, Joel Biederman, Greg Petschke, Mike Durkin, and Jeremy Zierler.

We wish to thank the management and staff of the New York State Crime Victims Board for the courtesies and cooperation extended to our auditors during this audit.

Very truly yours,

Frank J. Houston
Audit Director

cc: Robert Barnes, Division of the Budget

GEORGE E. PATAKI
GOVERNOR

JOAN A. CUACK
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CRIME VICTIMS BOARD

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September 20, 2004

Mr. Frank J. Houston
Audit Director
Office of the State Comptroller
110 State Street
Albany, NY 12236

Dear Mr. Houston:

The NYS Office of the State Comptroller (OSC) audited the NYS Crime Victims Board's system of internal controls over financial activities for the period April 1, 2002 through March 31, 2004. This document responds to the recommendations of the audit as follows:

OSC Recommendation #1

Complete and submit the annual internal control certification to DOB for 2003 and 2004. In addition, complete an action plan for complying with item B-350 and submit it to DOB as soon as possible.

CVB Response #1

These certifications are pending submission, and the NYS Crime Victims Board will be submitting them within the next eight weeks.

OSC Recommendation #2 and #3

2. *Commit to writing the policies and procedures for the budgeting process, the accounting and information systems, and for privacy issues. Communicate the policies to all staff involved in these functions.*
3. *Establish proper written equipment control procedures and communicate these procedures to all staff with responsibilities in the function.*

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CVB Response #2 and #3

The Board is in the process of updating all existing and writing any outstanding policy and procedure manuals for all our agency functions including internal controls. We have formally acknowledged this as an agency wide goal. It is included in our agency's strategic plan initiatives. Upon completion of each manual this information will be shared as appropriate with all staff involved in the matters related to each functional area.

We are in the process of developing written equipment control procedures to ensure all units are aware of their responsibilities and the requirements associated with such.

OSC Recommendation #4 and #5

4. *Perform written risk assessments for the revenue and collection, payroll and human resources, budgeting and expenditure control, and equipment and asset management operations.*
5. *Commit to writing risk assessments performed for the accounting and information systems functions.*

CVB Response #4 and #5

The Board expects to perform risk assessments of all appropriate areas in our operations. We will include such assessments in the noted areas for our next certification report over the next year. Please note that for our agency the Division of Criminal Justice Services performs the payroll and human resource functions.

We will provide written risk assessments for the accounting and information system functions.

OSC Recommendation #6

6. *Work with the courts, Probation, Parole and Corrections to improve the system that informs the Board of all restitution orders made by courts to the victims of violent crimes. Establish and communicate a system for using this information to bill and collect restitution payments from the victims or the appropriate State agencies.*

CVB Response #6

The Board is focusing on training judges on the importance of ordering restitution, and has been active in providing training in conjunction with the Office of Court Administration (OCA). In addition, OCA is improving the communication to the Board primarily through DA Offices and County Probation Departments. The Board will continue to work in this area, primarily through education and cooperation.

OSC Recommendation #7

7. Establish written policies and procedures for recording the transfers of equipment between Board offices and to report lost or stolen equipment to OSC.

CVB Response #7

The Board does have a form for reporting lost, irreparable or stolen equipment. There is also a separate form to report the transfer of equipment between offices. The Board will ensure written policies are updated for such reports and available to all staff.

OSC Recommendation #8

8. Reconcile all advance funds to their OSC approved balances monthly. Notify OSC of the amount that the petty cash fund is out of balance and request that the account is funded back to its approved level.

CVB Response #8

CVB has completed the reconciliation of the advance account and it is funded at its approved level. This will be kept current on a monthly basis.

OSC Recommendation #9 and #10

9. Ensure Board members follow existing procedures and reconcile all credit card charges for travel expenses to the travel vouchers and documentation submitted by the traveler.
10. Perform periodic physical inventories of the Board equipment at all three offices. Reconcile these inventories with the equipment inventory records for each office and resolve any discrepancies.

CVB Response #9 and #10

We agree and will take action. To ensure all travel expenses are correctly submitted in the future, Board Member secretaries will be updated on the appropriate procedures for documenting travel reimbursements and completing vouchers.

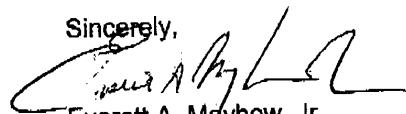
We completed updating the physical inventories for the Buffalo office. We are in the process of completing them for the Brooklyn and Albany offices. MIS has completed inventories for computer equipment in all offices. We will schedule regular updates for the first of every calendar year to coincide with our annual internal control testing and certification process.

Mr. Frank J. Houston
September 20, 2004

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Thank you for the opportunity to comment on your report.

Sincerely,



Everett A. Mayhew, Jr.
General Counsel

CC: Joan A. Cusack, Chairwoman