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COMPTROLLER



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STATE OF NEW YORK  
OFFICE OF THE STATE COMPTROLLER

February 1, 2005

Mr. Alan J. Croceis  
Chairman/Commissioner  
New York State Commission of Correction  
4 Tower Place  
Albany, NY 12203

Re: Report 2004-Q-13

Dear Mr. Croceis:

Pursuant to the New York State Governmental Accountability, Audit and Internal Control Act of 1987 (Act), as revised in 1999; the management of the New York State Commission of Correction (Commission) is responsible for establishing and maintaining an effective system of internal controls and a program of internal control review. 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. We have examined Commission management's certification of compliance for the year ended March 31, 2004. Commission management is responsible for the certification. Our responsibility is to express an opinion on the certification based on our examination.

**Background**

The Commission was established in 1973 as an independent agency within the Executive Department, under Article 3 of the New York State Correction Law. The Commission is responsible for overseeing and regulating the operation and management of State and local correctional facilities to provide for a safe, stable and humane correctional system. The Commission is comprised of three Commissioners appointed by the Governor; one serves as Chair and Chief Executive Officer, while the others serve as respective Chairs of the Medical Review Board and the Citizen's Policy and Complaint Review Council. During the year ended March 31, 2004, the Commission had a staff of 35 and received approximately \$2.5 million in General Fund appropriations. The Commission's staff conduct regular inspections, administrative investigations and site visits to regulate compliance and to investigate complaints and grievances. The Division of Criminal Justice Services (DCJS) provides administrative support to the Commission. DCJS staff process most of the Commission's financial transactions based upon approvals from Commission management.

## **Examination Objective and Methodology**

The objective of our examination was to determine whether the Commission's certification for the year ended March 31, 2004 is fairly stated in all material respects. Our examination was conducted in accordance with Generally Accepted Government Auditing Standards, which include the attestation standards established by the American Institute of Certified Public Accountants. Accordingly, we examined, on a test basis, evidence supporting management's certification and performed such other procedures, as 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 Commission employees follow those policies and procedures.

To accomplish this objective, we interviewed appropriate Commission and DCJS officials and reviewed applicable policies and procedures governing the following significant financial operations: revenue and collections; cash and investments; payroll; procurement and contracting; equipment and asset management; budgeting and expenditure control; and accounting and information systems. We interviewed Commission and DCJS staff responsible for these financial operations and performed limited compliance testing to provide assurance that Commission and DCJS employees follow established policies and procedures. We believe our examination 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 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.

## **Results of Examination**

The Act requires agencies to maintain a system of internal control review that is structured, well documented, and designed to identify internal control weaknesses and the steps necessary to correct these weaknesses. In addition, the Act requires agencies to implement education and training efforts to ensure their officers and employees have achieved an adequate awareness and understanding of internal control standards and, as appropriate, evaluation techniques. Commission officials state in their certification that they achieve both of these objectives through regular meetings with their officers and staff. However, they could not document these activities by providing us with agendas or minutes from these meetings. The Act also requires agencies to make available to each officer and staff member a clear and concise statement of the generally applicable management policies and standards with which each officer and staff member will be expected to comply. Commission officials stated they do not have a written statement of management policies and standards. They again indicate that these areas are addressed in the regular staff meetings,

which are not documented. We believe these conditions represent weaknesses in the Commission's certification process.

In our opinion, except for the effect of the weaknesses described in the preceding paragraph, management's certification referred to above is fairly stated in all material respects based on the criteria set forth in the Act and Item B-350. In addition, we noted the following matter regarding equipment inventory in which the Commission could either improve its system of internal controls, or strengthen the adherence to existing policies and procedures. Commission officials indicated that they will review their current policies and procedures and make any necessary revisions. (A summary table addressing specific questions related to each of the Commission's basic financial operations is attached as Table I.)

An agency should maintain a comprehensive inventory listing of all equipment and have a method for identifying its equipment. The Commission maintains an inventory; however, we found that the inventory was inaccurate. Through our tests, we identified missing equipment, improperly recorded equipment and equipment items that were not listed on the inventory records. The inaccurate inventory listing and the lack of proper verification increase the potential for equipment to be lost, stolen or misplaced without management's knowledge.

Major contributors to this examination were John Buyce, Joel Biederman, Greg Petschke, Stephen Capozza, Jeremy Zierler, Matthew Phillips, and Joseph Nopper.

We welcome your comments in response to this examination. We wish to express our appreciation to the management and staff of the Commission and DCJS for the courtesies and cooperation extended to our auditors during this examination.

Very truly yours,

Frank J. Houston  
Audit Director

cc: Robert Barnes, Division of the Budget  
Charles Papa, DCJS

**NEW YORK STATE COMMISSION OF CORRECTION  
INTERNAL CONTROLS OVER BASIC FINANCIAL OPERATIONS**

A colored “traffic light” legend is included in the table below to assist management in focusing an appropriate level of attention on the issues identified in the Commission Activities and Comptroller’s Comments sections of the Examination Findings.

**Legend:**

	Activities/Comments contain matters that should be of immediate concern to management.		Activities/Comments contain matters which management should consider correcting.		Activities/Comments do not contain issues that require management’s immediate consideration.
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**Examination Findings:** As part of our examination, we sought answers to a series of questions and reviewed selected Commission records related to certain basic financial operations. Our questions in each area, along with a summary of the Commission’s activities and our comments, are presented below.

	QUESTION	COMMISSION ACTIVITIES	COMPTROLLER’S COMMENTS
<b>Revenue and Collections:</b>			
	Do the Commission’s policies and procedures provide assurance that revenues are billed timely and accurately and are recorded properly in the accounting records?	The Commission receives limited revenues from fees for Freedom of Information Law (FOIL) requests. Because these fees are paid when the requests are submitted, no billing system is required.	Our examination indicates that controls are functioning as intended.
	Do the Commission’s policies and procedures provide assurance that revenues are being collected timely?	The Commission collects limited revenues through payment for FOIL requests. The Commission does not require an accounts receivable system for these payments because the fees are paid when the requests are made.	Our examination indicates that controls are functioning as intended.
<b>Cash and Investments:</b>			
	Do the Commission’s policies and procedures provide assurance that cash and investments are properly safeguarded, accounted for, and deposited into the appropriate accounts?	The Commission does not have investments. The Commission has a petty cash account to make small, non-travel purchases. Commission management submits requests for petty cash payments to DCJS, which processes the requests and issues the	Our examination indicates that these controls are functioning as intended.

	QUESTION	COMMISSION ACTIVITIES	COMPTROLLER'S COMMENTS
	<p>Do the Commission's policies and procedures provide assurance that cash disbursements are properly authorized and recorded?</p>	<p>checks to the vendors. The Commission has established communication with DCJS to ensure that all cash disbursements are properly authorized and recorded. Commission management approves all payments and then sends the documentation to DCJS where the payments are processed through the State's Central Accounting System.</p>	<p>Our examination indicates that these controls are functioning as intended.</p>
<b>Payroll:</b>			
	<p>Do the Commission's policies and procedures provide assurance that employee time and attendance records are accurate and that leave time is accounted for and recorded properly?</p>	<p>The Commission and DCJS have procedures in place to ensure that employee time and attendance records are accurate, and that leave usage and accruals are properly accounted for and recorded. Commission supervisors review and approve employee time records and DCJS enters the information into the State's payroll system (PaySR) and maintains Commission employee leave accrual records.</p>	<p>Our examination indicates that these controls are functioning as intended.</p>
	<p>Do the Commission's policies and procedures provide assurance that payroll changes (e.g., additions, deletions, and overtime) are processed accurately and timely?</p>	<p>The Commission and DCJS have procedures in place to ensure that employee additions and deletions are accurate. Commission management approves all additions and deletions and DCJS personnel enter these transactions onto PaySR.</p>	<p>Our examination indicates that these controls are functioning as intended.</p>
<b>Procurement and Contracting:</b>			
	<p>Do the Commission's policies and procedures provide assurance that purchases are authorized, received, and recorded properly?</p>	<p>The Commission has adequate purchasing procedures. All purchases must be approved by Commission management, received by the Principal Account Clerk and verified by the Account Manager before documentation is sent to DCJS for recording and payment.</p>	<p>Our examination indicates that these controls are functioning as intended.</p>

	QUESTION	COMMISSION ACTIVITIES	COMPTROLLER'S COMMENTS
	<p>Do the Commission's policies and procedures provide assurance that purchases are reasonable and necessary and made in an economical and efficient manner?</p>	<p>All purchases must be approved by a manager or supervisor. Commission policies require all purchases to be made in accordance with OGS and OSC guidelines for bidding and contracting and buying goods and services off State contract.</p>	<p>Our examination indicates that these controls are functioning as intended.</p>
<p><b>Equipment and Asset Management:</b></p>			
	<p>Do the Commission's policies and procedures provide assurance that equipment acquisitions and dispositions are authorized and recorded properly, and that a comprehensive inventory of equipment is maintained?</p>	<p>The Commission follows State guidelines for equipment acquisitions and dispositions. The Commission maintains a comprehensive inventory, which includes information pertaining to equipment assignment, description, identification number, and physical condition. Annually, staff perform a sample physical inventory supervised by Commission management.</p>	<p>We identified several problems with the Commission's equipment inventory. The inventory records do not contain the equipment cost and the annual physical inventory tests are not properly documented. We found that the inventory records were inaccurate, incomplete and do not account for all equipment items.</p>
	<p>Do the Commission's internal controls provide assurance that equipment is secured properly and used as intended?</p>	<p>The Commission has written policies and procedures covering specific usage of State equipment.</p>	<p>Our testing found that monitoring of computer equipment usage was insufficient. For example, computers assigned for employees' home usage could be used, without detection, for other than Commission business.</p>
<p><b>Budgeting and Expenditure Control:</b></p>			
	<p>Do the Commission's policies and procedures provide assurance that the Commission's annual budget is prepared accurately and timely?</p>	<p>Commission management works with DCJS to prepare the budget request and monitor expenditures against the approved budget. These procedures ensure that the Commission's budget is prepared and submitted timely to the Governor's Office.</p>	<p>Our examination indicates that these controls are functioning as intended. However, these procedures are not in writing.</p>
	<p>Do the Commission's policies and procedures provide assurance that actual operating results are monitored against budgeted estimates and that appropriate revisions to current and future budgets are made as warranted by these operating results?</p>	<p>Each month, Commission management and DCJS compare the Commission's actual expenditures against budgeted amounts, and adjust current or future budgets based upon this analysis.</p>	<p>Our examination indicates that these controls are functioning as intended. However, these procedures are not in writing.</p>

	QUESTION	COMMISSION ACTIVITIES	COMPTROLLER'S COMMENTS
<b>Accounting and Information Systems:</b>			
	<p>Do the Commission's accounting and information systems provide assurance that management has access to timely, accurate and relevant information?</p>	<p>DCJS maintains all accounting and information systems for the Commission. The systems provide Commission management with access to timely, accurate and relevant information.</p>	<p>Our examination indicates that these controls are functioning as intended.</p>
	<p>Do the Commission's policies and procedures provide assurance that the accounting and information systems are secure and that the information is recoverable in case of system failure?</p>	<p>DCJS provides the Commission with its information systems support. DCJS requires all Commission users to change passwords every 60 days, has comprehensive backup and disaster recovery plans in place and monitors Commission computer use and activity. In addition, DCJS provides the firewall security for the Commission's network.</p>	<p>Our examination indicates that these controls are functioning as intended.</p>