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STATE OF NEW YORK
OFFICE OF THE STATE COMPTROLLER

August 8, 2005

Mr. George Basher
Director
NYS Division of Veterans' Affairs
5 Empire State Plaza, Suite 2836
Albany, NY 12223-1551

Re: Report 2005-Q-2

Dear Mr. Basher:

Pursuant to the New York State Governmental Accountability, Audit and Internal Control Act of 1987 (Act), as revised in 1999, the Division of Veterans' Affairs' (Division) management 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 in accordance with Budget Policy and Reporting Manual Item B-350. We have examined Division management's certification of compliance for the year ended March 31, 2004. The Division's management is responsible for the certification. Our responsibility is to express an opinion on the certification based on our examination.

Background

The New York State Division of Veterans' Affairs (Division) was created in 1945 as part of the Executive Department to assist veterans, members of the armed forces, their families, and their dependents in securing benefits earned through military service. The Division's mission is to provide quality service and advocacy for New York State veterans, armed forces members, their dependents and survivors, ensuring they receive benefits granted by law for their service to New York and the nation.

The Division is organized into two geographical regions, the Eastern Region with headquarters in Manhattan, and the Western Region with headquarters in Buffalo. Each region is headed by a Deputy Director responsible for the operation of the 65 local counseling centers. The Deputies are assisted by Senior Counselors who supervise and assist the counselors in providing services to the veterans' community.

The 2004-05 budget provides \$13.3 million to fund administration and veterans' counseling services. The Division employs a staff of 113 employees.

Examination Objective and Methodology

The objective of our examination was to determine whether the Division's certification 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 the Division's employees follow those policies and procedures.

To accomplish these objectives, we interviewed appropriate Division officials and reviewed applicable policies and procedures governing the following significant financial operations: payroll, procurement and contracting and equipment and asset management. We interviewed Division staff responsible for these financial operations and performed limited compliance testing to provide assurance that Division employees follow established policies and procedures. We believe our examination provides a reasonable basis for our opinion. We did not review revenue collection practices because the Division does not collect any revenue. In addition, we did not review cash management because the Division does not collect cash or have any investments. Furthermore, we did not review accounting and information systems or budgeting and expenditure controls because the Division utilizes the State's Central Accounting System to record its activities and has its budget reviewed and approved by the Division of the Budget each year.

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.

Results of Examination

In our opinion, management's certification referred to above is fairly stated in all material respects based on the criteria set forth in the Act and Budget Policy and Reporting Manual Item B-350. However, we noted the following instance in which the Division could improve its system of internal controls. Division officials indicated that they are currently reviewing their overall operations and will seek to improve policies and procedures over areas cited in this report. (A summary table addressing specific questions related to each of the entity's basic financial operations is attached as Table I.)

The Division has assigned one individual to perform both payroll and personnel functions without adequate oversight by management. This individual initiates all transactions to add employees and delete employees from the payroll. Supervision must be enhanced when duties

cannot be properly segregated due to staffing limitations. Oversight could be improved if the Executive Deputy Director routinely reviewed the payroll register to ensure payroll transactions are processed properly.

Major contributors to this examination were Richard Sturm, Brian Lotz, Michael Cantwell, and Mark Radley.

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

Very truly yours,

William P. Challice
Audit Director

cc: Robert Barnes, Division of the Budget

**DIVISION OF VETERANS' AFFAIRS
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 Division Activities and Comptroller’s Comment 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 Division records related to certain basic financial operations. Our questions in each area, along with a summary of the Division’s activities and our comments, are presented below.

	QUESTION	DIVISION ACTIVITIES	COMPTROLLER’S COMMENT
<p>Payroll:</p>			
	Do the Division’s internal controls provide assurance that employee time and attendance records are accurate and that leave time is accounted for and recorded properly?	Timesheets are reviewed in the two regional offices by supervisors for completeness and accuracy of hours worked. Staff in the central office review all time sheets to assure accruals are accounted for accurately. The timesheets on file in the central office are the official record of leave balances. To assure accrual balances are not exceeded, regional supervisors are required to submit a report reflecting employees with low-leave balances to central office management.	Our review of a sample of 24 time sheets for eight employees showed that all were signed by the employee and supervisor, leave usage was correctly entered, accrual records were mathematically correct and consistent between pay periods. The report on low-leave balances appears to be an occasional update and not a routine monitoring device. Low-leave balance reports should be submitted regularly with time sheets so that management can react timely and effectively to staff that may exceed leave balances.

	QUESTION	DIVISION ACTIVITIES	COMPTROLLER'S COMMENT
	<p>Do the Division's internal controls provide assurance that payroll changes (e.g., additions, deletions, and overtime) are processed accurately and timely?</p>	<p>The payroll clerk is also the personnel clerk, thereby, responsible for initiating all transactions to add or delete employees. Personnel transactions are reviewed by a status examiner at the Department of Civil Service. The Division's Executive Deputy Director reviews payroll input forms and monitors documentation supporting additions and deletions. Division staff do not incur overtime.</p>	<p>Our test of the seven new hires during the audit scope period showed that all began on the payroll system on the date approved by the Division's Executive Deputy Director. Our testing of 8 of the 16 terminations and retirements showed that the respective staff was no longer receiving a salary as of the approved retirement or termination date. While we found no inappropriate additions or deletions from the payroll, the Office of the State Comptroller's internal control guidance requires that supervision be enhanced when duties cannot be segregated. Current monitoring efforts cover a review of the various forms and documents supporting payroll changes, but do not include verifying that ultimately the payroll register reflects the activity as indicated on the payroll input forms and supporting documents.</p>
<p>Procurement & Contracting:</p>			
	<p>Do the Division's internal controls provide assurance that purchases are authorized, received, and recorded properly?</p>	<p>The Division's Executive Deputy Director and one senior staff review and approve all requisitions and purchase orders. A Division staff person reviews the receipt of goods and confirms that they have been received by initialing the purchase order. Staff involved in the procurement process are aware of their duties and the relevant internal controls.</p>	<p>Our test of 11 purchases showed that they were properly requested, approved and recorded in accordance with the Division's guidelines. The Division's internal controls provide assurance that purchases are authorized, received, and recorded properly.</p>

	QUESTION	DIVISION ACTIVITIES	COMPTROLLER'S COMMENT
	<p>Do the Division's internal controls provide assurance that cash disbursements are properly authorized and recorded?</p>	<p>Most Division payments are small enough to be made using QuickPay. The Division's control procedures for QuickPay transactions conform to the Office of the State Comptroller's guidance. All disbursements are pre-approved by the Executive Director. The same employee cannot enter transaction data to QuickPay and also certify the transaction for payment. The Division maintains a small travel advance account in conformance with the Office of the State Comptroller's guidance.</p>	<p>Our test of a sample of 13 disbursements showed that all 13 were timely, made to the authorized payee and made for the approved amount. Our test of 11 advance account checks showed that controls are in place, amounts are recorded accurately, and activity is timely. Internal controls over disbursements, including the advance account, are adequate to provide assurance that disbursements are properly authorized and recorded.</p>
<p>Equipment & Asset Management:</p>			
	<p>Do the Division's internal controls provide assurance that equipment acquisitions and dispositions are authorized and recorded properly, and that a comprehensive inventory of equipment is maintained?</p>	<p>The Division has procedures in place that provide assurance that equipment acquisitions and dispositions are authorized and recorded properly. A comprehensive equipment inventory is maintained.</p>	<p>We identified all 10 equipment items in our sample. Each item had an inventory tag and was in the appropriate location.</p>
	<p>Do the Division's internal controls provide assurance that equipment is secured properly and used as intended?</p>	<p>The Division tags all equipment and notes its location on its comprehensive inventory listing. Use of State vehicles is controlled through assignment logs, mileage reports and specific rules prohibiting personal use.</p>	<p>The Division's policies and procedures provide assurance that equipment is secured properly and used as intended.</p>