

ALAN G. HEVESI
COMPTROLLER



110 STATE STREET
ALBANY, NEW YORK 12236

STATE OF NEW YORK
OFFICE OF THE STATE COMPTROLLER

October 18, 2005

Mr. Daniel D. Hogan
Commissioner
New York State Office of General Services
Empire State Plaza, Corning Tower
Albany, New York 12242

Re: Statewide Capital Asset Accounting System
Report 2004-S-74

Dear Mr. Hogan:

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 Office of General Services' management of the Statewide Capital Asset Accounting System. Our audit covered the fiscal year that ended on March 31, 2005.

A. Background

Under Chapter 957 of the Laws of 1974 as amended by Chapter 405 of the Laws of 1981 (Law), the Office of General Services (OGS) is responsible for establishing and maintaining a set of general capital asset accounts that comply with generally accepted accounting principles. The Law states that each agency shall deliver to OGS such information at the time and in the manner determined by OGS. In addition, it authorizes OGS to make physical and record inspections at the agencies to verify the accuracy of these records. New York State's capital assets include all land and buildings, building and land improvements valued at more than \$100,000, State-owned roads and highways, any non-Department of Transportation (DOT) infrastructure valued at more than \$1 million, and all equipment that costs more than \$40,000 and has a useful life of at least two years.

To comply with this Law, OGS has established the Statewide Capital Asset Accounting System (SCAAS), which is managed by its Bureau of Fixed Assets (BFA). The SCAAS contains the costs of constructing and improving buildings, acquiring and improving land, and purchasing equipment that meets the capital asset criteria. As of March 31, 2004, the total value of these assets was approximately \$11.5 billion, broken down into three main categories: land (53 percent), buildings (45 percent), and equipment (2 percent). DOT is responsible for determining the value of the State's infrastructure (approximately \$65 billion) and reporting that figure to the Office of the State Comptroller (OSC) annually for inclusion in the State's financial statements. The Dormitory Authority of the State of New York (DASNY) contracts and monitors building construction for the

Department of Health (DOH), the Office of Mental Retardation and Developmental Disabilities (OMRDD), and the Office of Mental Health (OMH). Once construction is completed, DASNY reports the completed construction costs to OGS, which then enters them on the SCAAS. OGS' Bureau of Design and Construction, which is responsible for the remainder of building construction at State agencies, compiles the costs of those projects and BFA enters them on the SCAAS. Every other State agency is responsible for entering its own capital land and equipment acquisitions. OGS reviews these entries, then places them permanently on the SCAAS.

The Government Accounting Standards Board Statement Number 34 (GASB 34), issued in June 1999, describes significant changes in the traditional government financial reporting standards. As a result of GASB 34, governments must now report considerably more information about the value and condition of their capital assets. In addition, all governments must use specific procedures to account for their infrastructure costs. As a result, OGS' responsibility has grown; it must ensure the accuracy and reliability of the data on the SCAAS, which forms the basis for much of the capital asset information that is reported on the State's annual financial statements. For the fiscal year that ended on March 31, 2004, the external auditor hired to perform the annual audit of the State's comprehensive financial statements found that the State had not implemented the processes and internal controls that would ensure the complete and accurate reporting of all capital assets. The external auditor cited 10 reportable conditions relating to OGS' management and oversight of the SCAAS and made 12 recommendations for changes that could correct those conditions.

B. Audit Scope, Objectives, and Methodology

We audited OGS' administration of the SCAAS for the fiscal year that ended on March 31, 2005. The objectives of our performance audit were to evaluate OGS' management of the SCAAS system and to determine what actions OGS has taken to comply with the recommendations made by the external auditor.

To accomplish our objectives, we interviewed management and staff at OGS, DASNY, DOT, OMRDD, OMH, DOH, the Office of Parks, Recreation and Historical Preservation (OPRHP), the Department of Environmental Conservation (DEC), the Department of Correctional Services (DOCS), DOCS Industries (Corcraft), the Division of State Police (DSP), the Department of Motor Vehicles (DMV) and the Office for Technology. We verified that completed building construction and land purchases had been posted to the SCAAS, and we performed a limited test of recent equipment purchases and traced them to the SCAAS.

We conducted our audit in accordance with generally accepted government auditing standards. Such standards require that we plan and do our audit to adequately assess those procedures and operations included in the audit scope. Further, these standards require that we understand OGS' internal control systems and compliance with those laws, rules and regulations that are relevant to OGS' procedures and operations that are included in our audit scope. An audit includes examining, on a test basis, evidence supporting transactions recorded in the accounting and operating records and applying such other auditing procedures as we consider necessary in the circumstances. An audit also includes assessing the estimates, judgments, and decisions made by

management. We believe our audit provides a reasonable basis for our findings, conclusions, and recommendations.

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 may 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

OGS has made significant progress implementing the external auditor's 12 recommendations for improving OGS' management and oversight of the SCAAS. Six of these recommendations addressed communications between OGS and various agencies, four dealt with OGS' monitoring of the agency's SCAAS transactions, and two concerned the control environment at OGS. We found that OGS has fully implemented 7 of the 12 recommendations and partially implemented the remaining. As a result, controls over the building and land portions of the SCAAS have improved; our testing indicated that each of these components of the system is accurate. For example, for the first two quarters of the 2004-05 fiscal year, we were able to trace the building construction completed by both OGS and DASNY to the SCAAS. We also traced all 19 capital land purchases made during the same period.

OGS still needs to improve its controls over the equipment portion of the SCAAS. OGS must stress to the agencies the importance of making entries of capital equipment transactions on the SCAAS timely and accurately. OGS is reactive instead of proactive in this area, providing assistance to agencies when they ask for it. As a result, the equipment portion of the SCAAS is still not accurate. We identified several agencies that have poor or non-existent controls over SCAAS transactions. We also tested 31 capital equipment items purchased during the 2004-05 fiscal year and found that 26 had not been posted on the SCAAS; 25 of the 26 items were DOT equipment purchases.

1. 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 other employees who need it in a form and within a time frame that help them carry out their responsibilities. Communication also takes place with outside parties such as customers, suppliers, and regulators.

The area of greatest concern to the external auditors was the communication between OGS and other agencies, especially DASNY. OGS has implemented several actions to correct these deficiencies. For example, DASNY now sends OGS a quarterly spreadsheet that identifies all building construction that was completed, as well as all construction still in progress, during that

quarter. OGS reviews the spreadsheet to ensure completeness, identifies those projects that meet capitalization criteria, and then posts the appropriate projects to the SCAAS. During the first two quarters of the 2004-05 fiscal year, DASNY reported 20 completed projects. We found that OGS had properly classified five of these projects as non-capital in nature. Of the remaining 15 capital projects, 13 had been posted to the SCAAS and the two remaining projects could not be posted until OGS obtained additional information from DASNY. In addition, DASNY and OGS are making a joint effort to enable DASNY to send its entire construction database to OGS, which will then use it for quarterly updates of the SCAAS. This data exchange will begin in the first quarter of fiscal year 2005-06.

In prior years, DASNY had not supplied OGS with all of the information necessary for posting certain completed construction projects on the SCAAS. As a result, 124 projects worth more than \$450 million were not posted on the SCAAS at the end of the 2003-04 fiscal year. Improved communications between the two agencies have made it possible to reduce the outstanding project list. OGS indicated that just 39 completed buildings worth about \$51 million had not yet been posted to the SCAAS, as of March 17, 2005.

To monitor land purchases, OGS has also improved communications with OSC and other agencies. OSC sends OGS quarterly reports that identify all completed land purchases; in turn, OGS matches these purchases to the SCAAS to verify that the agencies have entered the transactions properly. When OGS determines that agencies have not entered their land purchases, it reminds them to do so. Then it follows up with a review of OSC's subsequent quarterly report to ensure that the agencies have complied. Our examination of an OSC report listing all land purchases for the first two quarters of the 2004-05 fiscal year revealed that all 19 capital land purchases had been entered properly on the SCAAS.

OGS has improved communications with other agencies as well. It continues to work with a consultant to develop a new Capital Asset Accounting Manual. OGS officials told us they expect the manual to be finished early in the 2005-06 fiscal year and indicated they would distribute it in both print and electronic form. They said it will provide the basis for a formal training program that OGS will develop and make available to all agencies. In the meantime, OGS continues to respond to agencies' requests for assistance in entering transactions on the SCAAS.

Although OGS has made significant improvements in its controls over the building and land sections of the SCAAS, it still needs to improve controls over capital equipment transactions. OGS relies on the agencies to enter information on the SCAAS for capital equipment purchases. Before OGS posts these entries, it reviews them only for gross mistakes. Agencies do not provide OGS with any documentation that would enable it to verify the accuracy and completeness of the entries. Although OGS will respond to agency requests for guidance, it does not provide agency staff with periodic training classes that would reinforce their understanding of the SCAAS. These conditions create a high risk that the capital equipment values on the SCAAS are not accurate. We reviewed all purchases during the current year in excess of \$40,000, and obtained documentation to identify which purchases contained capital equipment items. We identified 31 capital equipment items purchased during the 2004-05 fiscal year and found that 26 had not been posted to the SCAAS.

2. 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 the achievement of organization objectives. To achieve effective monitoring, all employees need to understand the organization's mission, objectives, responsibilities, and risk tolerance levels.

OGS has improved its monitoring of SCAAS transactions and activities. It compares the information from its computer network that tracks OGS construction projects (DCNET) with the SCAAS to ensure that all of the building construction OGS completed was posted properly. We compared all of the construction DCNET reported as completed during the first two quarters of the 2004-05 fiscal year with the entries for those projects that had been posted on the SCAAS. All of the 100 projects DCNET listed as completed had been posted properly to the SCAAS - 87 as buildings and 13 as land improvements.

OGS has also properly monitored the progress of the 2004-05 biennial inventory. As of February 28, 2005, more than 70 percent of the agencies had responded to OGS' requests to update the SCAAS. In an effort to ensure that a full accounting would occur by the end of the fiscal year, OGS contacted the remaining agencies again. In prior years, errors had appeared in the capital asset schedules OGS sent to OSC. To correct this problem, OGS officials told us that the SCAAS manager will review all schedules for accuracy and completeness before they are submitted to OSC.

The external auditor recommended that OGS perform on-site reviews of agencies, focusing on those with significant capital assets, to verify adherence to existing policies, confirm that proper internal controls exist, and determine whether agencies are entering the items and values accurately in the SCAAS. OGS officials said they planned to begin this activity, on a limited basis, by the end of the 2004-05 fiscal year; and to continue it into the next fiscal year. In fact, they completed the field work on one review at OMH by the end of March 2005. At that time, OMH officials could not account for 2 of the 28 sample items; and 2 items located at OMH had not been entered on the SCAAS.

3. 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's structure and its accountability relationships are key factors in the control environment.

OGS has improved the control environment over the SCAAS. With the approval of the external auditor, it developed a new methodology for implementing its biennial inventory process at the agencies. In the past, all agencies performed inventories at two-year intervals. Under the new system, half of the agencies will perform inventories each year, resulting in verification of about 50 percent of the SCAAS value on an annual basis. OGS has also hired two accountants who work primarily on verifying the accuracy of the building and land sections of the SCAAS.

4. Internal Controls over SCAAS at Selected Agencies

We surveyed ten large agencies to determine how well they understood the SCAAS and to determine whether basic controls were in place to ensure the timely and accurate entering of transactions on the SCAAS. The agencies primarily responsible for land purchases - OPRHP, DEC, and DOT - have procedures in place for ensuring that these transactions are entered properly on the SCAAS. DASNY and OGS have established procedures for ensuring that all building construction is accounted for properly on the SCAAS. Several agencies, such as Corcraft, State Police, DEC, and OPRHP, have good controls that ensure the proper entry of capital equipment transactions.

We found that DOT, DOCS, and DMV - all large agencies - have poor systems for entering capital equipment transactions. For many years, DOT has provided OGS with quarterly computer files of its capital equipment transactions, which OGS merged into the SCAAS. That practice was expected to be updated after DOT installed new computer systems during the 2004-05 fiscal year. However, a new file transfer process has not been created or implemented, because the person responsible for preparing the file for OGS retired in December 2004. In fact, as of March 31, 2005, OGS had not yet received any capital equipment files from DOT.

DOCS officials stated that each of their 70 facilities is responsible for entering capital asset transactions onto the SCAAS. However, we found that just two facilities had entered one transaction each on the SCAAS; and OGS officials stated that they had received no manual input forms from any DOCS facility during the 2004-05 fiscal year. We found that the only persons with access to the system were three central office employees and one employee from each of six facilities. (After we surveyed DOCS and reported our findings to OGS, DOCS increased the number of facilities with access to 42.) We also found that DMV has not assigned an employee to the task of entering transactions on the SCAAS, and that DMV entered no capital equipment transactions during the 2004-05 fiscal year.

Recommendations

1. *Work with DASNY to resolve the remaining issues that inhibit the timely and accurate transfer of information to OGS for input to the SCAAS, including the technical problems that prevent the transfer of the DASNY database.*

(OGS officials responded that they continue to work with DASNY to create a timely and accurate transfer process.)

2. *Work with DASNY to post the remaining 39 completed projects from prior years to the SCAAS.*

(OGS officials responded that the numbers of completed projects from prior years that have not been posted have been reduced from 39 to 10. They added that the value of the remaining projects and the estimated depreciation has been submitted to OSC's Bureau of Financial Reporting for inclusion in the Statewide Financial Statements. This has helped to ensure that the reported value of the inventory is accurate, while OGS resolves the issues that prevent posting of the specific transactions. They indicated they will continue to work with DASNY until all remaining completed projects are entered onto SCAAS.)

3. *Improve communications with SCAAS users by:*

- *issuing the new Capital Asset Accounting Manual to all agencies,*
- *developing training for agency personnel in the use of SCAAS, and*
- *ensuring that agencies are aware of their responsibility to enter all capital asset transactions timely and accurately.*

(OGS officials responded that they have recently received the final copy of the updated Capital Asset Accounting Manual from their consultant and they are working to make the complete manual accessible online. Hard copies will also be printed and mailed to all agencies. They added that the new manual should provide a solid foundation for formulating a training plan, and that agencies have continually been made aware of their responsibility to enter all capital asset transactions timely and accurately through written correspondence and phone calls.)

4. *Review all capital asset information for completeness and accuracy before it is transmitted to OSC.*

(OGS officials responded that they have instituted a policy of reviewing reports prior to submission to OSC.)

5. *Conduct on-site reviews of agency activities to ensure the timely and accurate reporting of items and values on the SCAAS.*

(OGS officials responded that they have started conducting on-site reviews of agency assets at OMH and DOCS facilities. Additional on-site inspections are planned and are currently being scheduled.)

6. *Work with DOT to ensure that its capital equipment purchases are reported timely to OGS, and with DOCS and DMV to ensure their purchases are entered on the SCAAS timely.*

(OGS officials responded that all DOT equipment transactions were posted to SCAAS prior to the year-end closing. Also, OGS has focused on working with DOCS, providing system training and increasing their utilization of the SCAAS. OGS reports that 65 out of 71 correctional facilities now have online access and transaction submissions from DOCS have increased. OGS also reported that they will be working with DMV officials in the coming year to ensure more consistent, accurate reporting to SCAAS.)

A draft copy of this report was provided to OGS officials for their review and comment. Their comments have been considered in preparing this report and are included as Appendix A.

Within 90 days after final release of this report, as required by Section 170 of the Executive Law, the Commissioner of OGS 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, Michael Durkin, Matthew Phillips, and Marticia Madory.

We wish to thank the management and staff of the Office of General Services 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
Maryanne Gridley, DASNY
Joseph H. Boardman, DOT
Glenn S. Goord, DOCS
Raymond P. Martinez, DMV



DANIEL D. HOGAN
COMMISSIONER

ROBERT J. FLEURY
FIRST DEPUTY COMMISSIONER

STATE OF NEW YORK
EXECUTIVE DEPARTMENT
OFFICE OF GENERAL SERVICES
MAYOR ERASTUS CORNING 2ND TOWER
THE GOVERNOR NELSON A. ROCKEFELLER EMPIRE STATE PLAZA
ALBANY, NEW YORK 12242

CHARLES E. STANLEY
DEPUTY COMMISSIONER

FRANKLIN A. HECHT
DIRECTOR OF ADMINISTRATION

July 15, 2005

Mr. Frank J. Houston
Audit Director
Office of the State Comptroller
Division of State Services
State Audit Bureau
123 William Street – 21st Floor
New York, NY 10038

Dear Mr. Houston:

We are writing in response to your draft audit report on the Office of General Services' (OGS) management of the Statewide Fixed Asset Accounting System (2004-S-74). As was stated in your report, OGS has made significant progress implementing the external auditor's 12 recommendations for improving OGS' management and oversight of the Statewide Capital Asset Accounting System (SCAAS). We are pleased that your audit shows the improvements over the accounting for capital assets. With limited recourses, we had initially focused most of our efforts on Land and Building assets that your audit noted makes up 98% of the value of our inventory. Based on the recommendations of the State's external auditors, we focused additional efforts refining our processes to further improve the value of information contained in our system. We appreciate your review of our procedures and your recommendations for improvement. We present our comments by listing your recommendations and then our related comments.

Recommendation 1

Work with DASNY to resolve the remaining issues that inhibit the timely and accurate transfer of information to OGS for input to the SCAAS, including the technical problems that prevent the transfer of the DASNY database.

OGS' Response

OGS continues to work with DASNY to create a timely and accurate transfer process. OGS and DASNY have already made progress evidenced by the transfer of DASNY CIP data to OSC's Financial Reporting Bureau more than a month earlier than last year.



Recommendation 2

Work with DASNY to post the remaining 39 completed projects from prior years to the SCAAS.

OGS' Response

We would like to note that the value of the remaining projects and the estimated depreciation was submitted to OSC's Bureau of Financial Reporting for inclusion in the Statewide Financial Statements. This helped to ensure that the reported value of the inventory is accurate while we resolve the issues that prevents posting of the specific transactions. OGS will continue to work with DASNY until all remaining completed projects are entered onto SCAAS. The numbers of completed projects from prior years that have not been posted have now been reduced from 39 to 10.

Recommendation 3

Improve communications with SCAAS users by:

- issuing the new Capital Asset Accounting Manual to all agencies,
- developing training for agency personnel in the use of SCAAS, and
- ensuring that agencies are aware of their responsibility to enter all capital asset transactions timely and accurately.

OGS' Response

OGS has recently received the final copy of the updated Capital Asset manual from KPMG. We've completed our review and are currently working with our IT department to make the complete manual accessible online. Hard copies will also be printed and mailed to all agencies.

Training was offered in a letter sent to all agencies in the fall of 2004. In addition, the issuance of the new Capital Asset manual should provide us with a solid foundation for formulating a training plan. Training is currently offered and participation encouraged at all facilities selected for on-site asset inspection, and we have conducted several training sessions in recent weeks.

Agencies have continually been made aware of their responsibility to enter all capital asset transactions timely and accurately through written correspondence and phone calls. Our continued efforts utilizing on-site inspections and agency training will help agencies realize the importance of their participation.

Recommendation 4

Review all capital asset information for completeness and accuracy before it is transmitted to OSC.

OGS' Response

OGS concurs and has instituted a policy of reviewing reports prior to submission to OSC.

Recommendation 5

Conduct on-site reviews of agency activities to ensure the timely and accurate reporting of items and values on the SCAAS.

OGS' Response

As is stated in the audit report, OGS has already started conducting on-site reviews of agency assets. In addition to the review conducted at **OMH** (not DOH), OGS has conducted on-site reviews and training sessions at four DOCS facilities. Additional on-site inspections are planned and are currently being scheduled.

Recommendation 6

Work with DOT to ensure that its capital equipment purchases are reported timely to OGS, and with DOCS and DMV to ensure their purchases are entered on the SCAAS timely.

OGS' Response

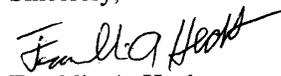
The transaction files were received by OGS in May and all DOT equipment transactions were posted to SCAAS prior to the year-end closing. DOT has always provided data on their equipment transactions, the fact that their new computer system was not able to provide quarterly updates during implementation did not, ultimately, have a negative affect because their results were received and posted by year-end.

OGS also focused on working with DOCS, providing system training and increasing their utilization of the SCAAS. Currently, 65 out of 71 correctional facilities have online access to our system and transaction submissions from DOCS have increased.

OGS will be working with officials from DMV in the coming year to ensure more consistent, accurate reporting to SCAAS.

We would like to thank the auditors for their work on this area. We expect to continue to improve reporting of capital assets. The recommendations submitted should help in the development of a more accurate and reliable SCAAS.

Sincerely,



Franklin A. Hecht