

**Alan G. Hevesi  
COMPTROLLER**



---

**OFFICE OF THE  
NEW YORK STATE COMPTROLLER**

**DIVISION OF STATE SERVICES**

---

**Audit Objective..... 2**

**Audit Results - Summary..... 2**

**Background..... 2**

**Audit Findings ..... 3**

Control Environment ..... 3

Information and Communication..... 3

Risk Assessment..... 4

Control Activities ..... 4

Monitoring..... 5

**Audit Scope and Methodology..... 5**

**Authority ..... 6**

**Reporting Requirements..... 6**

**Contributors to the Report ..... 6**

**Appendix A - Auditee Response .... 7**

**STATE EDUCATION  
DEPARTMENT**

**WRITTEN SUPPORT OF  
INTERNAL CONTROLS  
OVER THE STATE AID  
MANAGEMENT SYSTEM**

**Report 2006-S-32**

## AUDIT OBJECTIVE

Our purpose was to find out whether the State Education Department (Department) has written support for internal controls over its State Aid Unit (Unit) and State Aid Management System (SAMS). SAMS produces the financial information for reporting Support of Public Schools to the Office of the State Comptroller (OSC) for use in the State's Comprehensive Annual Financial Report.

## AUDIT RESULTS - SUMMARY

We found the Department has adequate written support over its internal controls for the Unit and SAMS. We believe these controls, as written, and if followed, should minimize the risk of significant misstatements in the financial information the Department reports to OSC for the State's Comprehensive Annual Financial Report. Department officials provided ample current documentation to support each of the five components of internal control. Documentation consisted of mission, goals, and values statements; performance evaluations; policies and procedures; system user manuals; internal and external reports; correspondence among agency personnel and aid recipients; system edit checks and exception reports; and a risk assessment.

This report, dated August 1, 2006, is available on our website at: <http://www.osc.state.ny.us>. Add or update your mailing list address by contacting us at: (518) 474-3271 or Office of the State Comptroller  
Division of State Services  
State Audit Bureau  
110 State Street, 11<sup>th</sup> Floor  
Albany, NY 12236

## BACKGROUND

Internal controls are a combination of attitudes, policies, and efforts of the people within an organization working together to achieve the organization's objectives and mission. A strong system of internal controls benefits all aspects of an organization's operations. It improves the reliability of organizational operations, provides confidence that an organization is using funds and resources efficiently and effectively, and provides comfort that assets and resources are well protected and managed. Written support of these controls is essential to an organization because it provides its employees with guidance on proper behavior, job expectations, and how to attain organizational objectives and goals. In addition, written support provides the public with a level of assurance that the financial information reported by the organization is accurate and reliable. All State agencies are required by law to put into practice a system of internal controls over their operations. Agency management is responsible for making sure this system of internal controls has been developed, implemented, and communicated throughout the organization.

The Department administered over \$15 billion in local assistance disbursements for support of public schools for the fiscal year ended March 31, 2005. The Department's Unit uses an automated system, SAMS, to administer support of public school disbursements. Financial data generated by SAMS is submitted to OSC for inclusion in the State's Comprehensive Annual Financial Report. This audit focused on the Department's written support of internal controls for the Unit and SAMS.

---

## AUDIT FINDINGS

---

### *Control Environment*

---

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

Department management provided us with adequate written support for the control environment over its Unit. Unit management developed a mission, goals, and values document and a recruitment plan. The mission, goals, and values document provides Unit staff with a sense of the Unit's purpose and objectives, as well as management's vision and ethical values. The recruitment plan spells out minimum qualifications and job duties for positions within the Unit, and reflects the expectations of all staff. Unit management has shown a clear pledge to following state aid requirements by disallowing district submissions after posted due dates and denying requests for extensions. In addition, to further stress the importance of strong ethics within the Unit, personnel have attended ethics training.

To promote accountability among Unit staff, management uses annual employee performance evaluations. The evaluations gauge employee success in performing specific job related tasks, include supervisory comments, and assign a performance rating of satisfactory or unsatisfactory. In addition to promoting employee accountability, the

annual performance evaluation supports a policy that provides for the competency of employees working within the Unit.

We also found that the Department's top official and Internal Control Officer are conscious of internal controls and their importance to the organization. In 2003, the Commissioner felt the Department's internal control system needed improvements, so he developed and implemented a plan to improve it. Also, the Department's Internal Control Officer is knowledgeable about internal controls and works closely with the Commissioner in establishing internal control measures for the Department. Furthermore, she participated on the New York State Internal Control Task Force and worked to create the new administrative manual that communicates policies and procedures throughout the Department.

---

### *Information and Communication*

---

Communication is the exchange of useful information between and among people, inside and outside the organization, to support decisions and coordinate activities. Within an organization, important information should be clearly communicated in a timely manner to management and employees who need it to help them carry out their every day jobs.

Department management provided us with adequate written support for information and communication as it relates to the Unit and SAMS. When SAMS was first put into service, Unit staff sent letters to school district Superintendents outlining system specifics. The Unit sends letters to report and/or resolve any district-specific situations too. The Unit also provides effective and timely communications to school districts, BOCES, outside agencies, and the public via

its website. The website contains a SAMS login for obtaining information regarding aid payments to school districts and BOCES, a SAMS training manual, and help text for the wide array of forms, schedules, and exhibits within SAMS. Additionally, on a biweekly basis, school district business administrators are kept abreast of the Unit's updated website information, aid information, and topics of discussion for future meetings via a newswire. Furthermore, to ensure funds are available for payment, Unit staff submits payment schedules to OSC with projected payment dates for each aid category.

Within the organization, Unit management e-mails staff of upcoming SAMS training and provides staff with a SAMS training manual and aid procedures to help them better carry out their job responsibilities. The Unit also holds an annual focus group meeting to discuss processing issues and to develop a list of potential improvements for the following year. The resulting list of improvements is documented and shared with all Unit staff.

---

#### *Risk Assessment*

---

Risks that potentially threaten the success of an organization's mission and objectives should be identified and managed. Risks can be both internal (e.g., human error, fraud, or system breakdowns) and external (e.g., changes in legislation or natural disasters). An organization's management should seek to minimize risks or prevent them from occurring. For each risk that is identified, management should evaluate the likelihood of occurrence and magnitude - and decide whether to accept the risk, reduce the risk to an acceptable level, or avoid the risk.

Department management provided us with adequate written support for risk assessment

as it relates to the Unit and SAMS. In June 2005 and June 2006, the Unit completed risk assessments that identified the objectives, key functions, risks linked with those functions, and activities that were implemented to minimize or prevent those risks. For example, the 2006 risk assessment identified data collection as a key function, the late submission of data from districts as an associated risk, and the monitoring of problem districts, warning e-mails, and web-based reporting as the procedures put into place to address the risk. The Department's 2005-2006 internal control certification also documents that internal control procedures are being implemented and evaluated on a regular basis.

---

#### *Control Activities*

---

Control activities are policies, procedures and other safeguards an organization puts in place to help prevent or reduce risks that threaten the success of its objectives and mission. Management should establish control activities to aid in the efficient and effective success of the organizations objectives and mission.

Department management provided us with adequate written support for control activities over the Unit and SAMS. The Unit has many policies and procedures to aid personnel in the achievement of the Unit's responsibilities. Policies and procedures include:

- SAMS training and user manual for school districts, BOCES, and Unit personnel;
- SAMS help text for various schedules and forms;

- State Aid payment verification steps; and
- New York City building and lease procedures, lease aid eligibility, lease edits, and expenditures policy.

Moreover, Unit management has outlined other data verification steps Unit staff complete to verify state aid claims and aid calculations. Also, there are application controls for the software used to process state aid claims and aid calculations. These controls include SAMS system edits and New York City building project edits and edit checks. Furthermore, SAMS has built-in security functions and generates edit exception reports after edits are run on data claims.

---

*Monitoring*

---

Monitoring is the review of an organization’s activities and/or transactions to assess its performance over time and to determine whether controls are effective. This is accomplished by putting procedures in place to monitor internal control and the success of organizational objectives.

Department management provided us with adequate written support for monitoring over the Unit and SAMS. All Department management is provided a “monitoring toolkit” that identifies programmatic monitoring activities done by the Department’s internal audit group and lists out the type of monitoring that should be done, how to do it, how to communicate results, and other information useful for implementing a complete monitoring plan.

SAMS has a built-in exception reporting function that runs edit checks on the three

major forms used by districts for reporting purposes. If exceptions exist, an exception report is produced so data errors can be corrected by the district. The exception reports are used by the Unit to monitor data submissions within SAMS and to ensure districts are reporting accurate data. SAMS also generates an activity log that enables Unit staff to monitor missing district submissions and requests for more information. Also, Unit management monitors staff effectiveness in resolving district issues. Furthermore, the Unit creates spreadsheets to track and monitor appropriation amounts, chargebacks, and expended amounts to New York City and the rest of the State. Finally, employee performance evaluations are used to monitor employee performance and competency.

**AUDIT SCOPE AND METHODOLOGY**

We did our audit according to generally accepted government auditing standards. We audited the Department’s written support for the internal controls over the Unit and SAMS for the period April 1, 2005 through May 19, 2006. Internal controls are defined as the integration of the activities, plans, attitudes, policies, and efforts of the people of an organization working together to provide reasonable assurance the organization will achieve its objectives and mission. To do our audit, we interviewed Department officials and reviewed documentation, provided by Department personnel, that supports the system of internal controls over the Unit and SAMS.

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 Comptroller’s 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.

#### **AUTHORITY**

The audit was done according to the State Comptroller's authority set forth in Article V, Section 1 of the State Constitution and Article II, Section 8 of the State Finance Law.

#### **REPORTING REQUIREMENTS**

We provided draft copies of the matters in this report to Department officials for their review and comment. We considered their comments in preparing this report. A complete copy of the Department's response is included as Appendix A.

#### **CONTRIBUTORS TO THE REPORT**

Major contributors to this report include David R. Hancox, Brian Mason, Melissa Little, Andrew Fischler, Heather Pratt, Theresa Lawrence, Sharon Salembier, and Scott Heid.

## APPENDIX A - AUDITEE RESPONSE



THE STATE EDUCATION DEPARTMENT / THE UNIVERSITY OF THE STATE OF NEW YORK / ALBANY, NY 12234

DEPUTY COMMISSIONER FOR OPERATIONS  
AND MANAGEMENT SERVICES  
Tel. (518) 474-2547  
Fax (518) 473-2827  
E-mail: tsavo@mail.nysed.gov

July 17, 2006

Mr. David R. Hancox  
Audit Director  
Office of the State Comptroller  
Division of State Services  
State Audit Bureau  
110 State Street – 11<sup>th</sup> Floor  
Albany, NY 12236

Dear Mr. Hancox:

I am responding to Mr. Sossei's letter of June 29, 2006 addressed to Commissioner Mills regarding the Office of the State Comptroller's (OSC) draft audit report (2006-S-32) entitled "Written Support of Internal Controls Over the State Aid Management System."

The State Education Department agrees with OSC's conclusion that the Department has adequate written support for its internal controls for the Unit and its State Aid Management System (SAMS). It is the Department's contention that internal controls, and the documentation to support them, are critical to the integrity of SAMS, which is currently used to allocate roughly \$17 billion in funding for public schools. The Department will continue to take steps to ensure that, as SAMS is fully implemented, it will provide a strong internal controls system. This will serve both to minimize the risk of significant misstatements in the financial information the Department reports to OSC for the State's Comprehensive Annual Financial Report, and to provide safeguards for the proper allocation of State Aid payments.

If you have any questions, please contact Burt Porter, Director of Education Finance, at (518) 474-8825.

Sincerely,

Theresa E. Savo

c: Commissioner Mills  
Michael Abbott  
Burt Porter