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**Alan G. Hevesi  
COMPTROLLER**



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**OFFICE OF THE  
NEW YORK STATE COMPTROLLER**

**DIVISION OF STATE SERVICES**

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**OFFICE OF TEMPORARY  
AND DISABILITY  
ASSISTANCE**

**WRITTEN SUPPORT OF  
INTERNAL CONTROLS  
OVER THE AUTOMATED  
CLAIMING SYSTEM**

**Report 2006-S-42**

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## AUDIT OBJECTIVE

Our purpose was to find out whether the Office of Temporary and Disability Assistance (OTDA) has written support for internal controls over its Budget, Finance & Data Management Unit (Unit) and Automated Claiming System (System); this System produces the financial information for reporting disability, public assistance, and other assistance programs to the Office of the State Comptroller (OSC) for use in the State's Comprehensive Annual Financial Report.

## AUDIT RESULTS - SUMMARY

We found that in most areas, OTDA has adequate written support over its internal controls for the Unit and the System. We believe these controls, as written, and if followed, should decrease the risk of significant misstatements in the financial information OTDA reports to OSC for the State's Comprehensive Annual Financial Report. Documentation consisted of mission, goals, and code of conduct statements; performance evaluations; policies and procedures; system user training manuals; internal and external reports; an employee suggestion program; and system edit checks. We found that written support related to risk assessment was inadequate.

This report, dated September 6, 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  
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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 for 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.

OTDA administered over \$6 billion in local assistance disbursements for support of disability, public assistance, and other assistance programs for the fiscal year ended March 31, 2005. OTDA's Unit uses the System to administer support of disability, public assistance, and other assistance programs. Financial data generated by this system is submitted to OSC for inclusion in the State's Comprehensive Annual Financial Report. This audit focused on OTDA's written support of internal controls for the Unit and the System.

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## AUDIT FINDINGS AND RECOMMENDATION

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### *Control Environment*

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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.

OTDA management provided us with adequate written support for the control environment over the Unit and the System. The Commissioner sets a positive tone for internal control by communicating the importance of internal control and describing the organization's internal control policy in a 'Message from the Commissioner,' which is available on the OTDA intranet. Also available on the intranet are OTDA's mission and goals, code of conduct and ethics policy. OTDA maintains organization charts for the agency overall and for individual operating units within the agency.

Management helps ensure employee competency through training and periodic performance evaluations. In addition, OTDA administers an employee recognition program to acknowledge employees' significant accomplishments.

OTDA's Internal Control Officer (ICO) is the Assistant Director for the Bureau of Management Services. We found the ICO was knowledgeable on internal control and OSC's Standards for Internal Control in New York State Government.

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### *Information and Communication*

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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.

OTDA management provided us with adequate written support for information and communication as it relates to the Unit and the System. OTDA distributes information to its employees through its intranet. This information includes: Commissioner's messages; division/unit functions and objectives; and administrative policies, including an employee's handbook and code of conduct. OTDA also administers an employee suggestion program which provides employees the opportunity to submit their ideas, concerns, and issues directly to the Commissioner.

Within the Unit, staff holds regular meetings to discuss a wide array of issues, including those related to the System. In addition, OTDA issues a monthly statistical report that is posted to its internet site. This monthly report provides year-to-year comparisons for assistance programs. The federal government, localities in the State, OTDA and State taxpayers are able to view the report. Furthermore, OTDA communicates with localities through letters outlining the results of OTDA's reviews of the localities' claims.

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### *Risk Assessment*

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Risks that potentially threaten the success of an organization's mission and objectives should be identified and managed; they 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.

We assessed documentation of OTDA's risk assessment process related to the System as inadequate. A formal risk assessment has not been completed over the past three years. In March 2003, the Unit performed an assessment of function vulnerability for federal and State aid reimbursements to local districts. At that time, the Unit rated common risk factors, common control methods, and the associated levels of impact. Moreover, the Unit concluded that federal and State aid reimbursement to local districts was a high risk function, as well as a function critical to the mission of OTDA. However, since 2003, no formal risk assessment of this function has been performed.

#### **Recommendation**

1. Perform a written risk assessment of federal and State aid reimbursement to local districts.

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#### *Control Activities*

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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 organization's objectives and mission.

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

- Automated Claiming System Training Manual for Local Districts;
- Narrative of the System;
- NYS Fiscal Reference Manual; and
- OTDA's Administrative Policies and Procedures Manual.

Moreover, Unit management has developed and implemented specific edit checks to verify the reliability of data that is input to the System. The edit checks enable Unit management to verify that information entered into the System is complete and accurate. When the edit checks identify errant or incomplete data, the System produces error screens which prompt Unit staff to correct the problems.

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#### *Monitoring*

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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 controls and the success of organizational objectives.

OTDA management provided us with adequate written support for monitoring the Unit and the System. Each year, the Unit reviews claims for eight to ten localities on a

sample basis. (Note: New York City claims are reviewed each month.) The review consists of examining large increases and/or decreases in expenses and ensuring claims are accurate. In addition, OTDA's Office Automation unit runs system tests on the System when new changes are made to ensure the changes are functioning as intended. Office of Management and Budget Circular A-133 reviews each county to have a single audit performed. As part of OTDA's sub-recipient monitoring, they require each county to submit their single audit report for OTDA's review and follow-up. Large amounts of federal funds are processed through the System. OTDA tracks the single audits, including when the audits were completed, what programs were reviewed, and any findings the auditors had.

Furthermore, OTDA creates a monthly statistical report for its assistance programs. This report provides statistics on claims processing (including the number received, number of recipients, and expenditure amounts) and compares them on a year-to-year basis. This helps management monitor progress toward the agency's goal to "efficiently deliver temporary and transitional assistance and disability assistance" by alerting officials to large increases and decreases in claims processing. Officials then determine the causes for such variances.

OTDA also administers a performance evaluation program. Through this program, management monitors employee performance against expectations, according to employees' job titles. This process helps management ensure that employees perform their tasks properly and meet organizational objectives.

#### **AUDIT SCOPE AND METHODOLOGY**

We did our audit according to generally accepted government auditing standards. We

audited ODTA's written support for internal controls over its Automated Claiming System for the period April 1, 2005 through July 14, 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 accomplish our objective, we interviewed OTDA officials and reviewed documentation provided by ODTA personnel that supports their system of internal controls over the Unit and the System.

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 performed according to the State Comptroller's authority under Article V, Section 1, of the State Constitution; and Article II, Section 8, of the State Finance Law.

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## **REPORTING REQUIREMENTS**

We provided draft copies of this report to OTDA officials for their review and comment. OTDA officials agreed with our audit recommendation and have taken steps to implement it. A complete copy of OTDA's response is included as Appendix A.

Within 90 days after final release of this report, as required by Section 170 of the Executive Law, the Commissioner for the Office of Temporary and Disability Assistance shall report to the Governor, the

State Comptroller, and the leaders of the Legislature and fiscal committees, advising of the steps that were taken to implement the recommendation it has, and/or the reasons the recommendation was not implemented.

## **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



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George F. Pataki  
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August 16, 2006

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

Re: Written Support of Internal  
Controls over the Automated  
Claiming System (2006-S-42)

Dear Mr. Hancox:

The following is the New York State Office of Temporary and Disability Assistance's (OTDA) response to the Office of the State Comptroller recommendation offered in the draft report entitled "Written Support of Internal Controls over the Automated Claiming System."

We have reviewed the report and have one comment about the wording of the following statement on page 5: "OTDA also has a single audit performed annually for every county pertaining to OTDA programs that use federal funds." OTDA does not have a single audit performed; rather, the requirements of Circular A-133 require that a county have a single audit performed. As part of OTDA's sub recipient monitoring, we require that the counties submit their single audit reports to us for review and follow-up.

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We do concur with the one recommendation and on July 27th completed a written risk assessment.

Thank you for the opportunity to comment on the draft report.

Sincerely,  
  
Robert Doar

*"providing temporary assistance for permanent change"*

\* Comptroller Comment: We have revised the report to reflect information provided in OTDA's draft response.