
**Alan G. Hevesi
COMPTROLLER**



Audit Objective.....2

Audit Results - Summary.....2

Background.....2

Audit Findings3

Control Environment.....3

Information and Communication.....3

Risk Assessment.....4

Control Activities5

Monitoring.....5

Audit Scope and Methodology.....5

Authority6

Reporting Requirements.....6

Contributors to the Report6

Appendix A - Auditee Response7

**OFFICE OF THE
NEW YORK STATE COMPTROLLER**

DIVISION OF STATE SERVICES

DEPARTMENT OF LABOR

**WRITTEN SUPPORT OF
INTERNAL CONTROLS
OVER THE FINANCIAL
REPORTING OF
UNEMPLOYMENT
INSURANCE**

Report 2006-S-43

AUDIT OBJECTIVE

Our purpose was to find out whether the Department of Labor (Department) has written support for internal controls over its Unemployment Insurance System (System) and Unemployment Insurance Division (Division). This system produces the financial information for reporting Unemployment Insurance revenue and disbursements to the Office of the State Comptroller (OSC) for use in the State's Comprehensive Annual Financial Report.

AUDIT RESULTS - SUMMARY

We found that the Department has adequate written support over its internal controls for the System and the Division. 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 a mission and a vision statement; strategic goals, performance evaluations, policies and procedures, workflow descriptions, job descriptions, risk assessments, an employee suggestion program, and internal and external reports.

This report, dated October 4, 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, 11th 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 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.

The Department is responsible for connecting people to jobs, assisting the unemployed, developing workplace skills, and protecting the public and the workforce. The Department disbursed over \$2.4 billion in Unemployment Insurance Benefits for the fiscal year ended March 31, 2005. The Division uses the System to administer Unemployment Insurance benefits. Financial data generated by the System is submitted to OSC for inclusion in the State's Comprehensive Annual Financial Report. This audit focused on the Department's written support for the Division and the System.

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 the System and Division. Management's attitude toward internal control is supported by the Department's intranet site for its Internal Control Unit. This site contains: a message from the Commissioner stating the importance of internal controls; employees' responsibilities for internal control; and internal control reference materials. In addition, the Department has developed several brochures and posters addressing internal control in specific areas. For example, the Department has issued brochures entitled *Internal Controls and the Computer*; *Internal Controls and Your Paycheck*; and *Internal Controls and Safety*.

Furthermore, the Department developed a mission, vision and goals document. This document communicates the Department's mission of connecting people to jobs, assisting the unemployed, and developing workplace skills for its employees. This information provides Department employees with a sense of direction and purpose in carrying out their job responsibilities. The Department also maintains a Code of Ethics

and other Department policies and procedures on its intranet site.

Division management is knowledgeable on internal control and has completed an online internal control training program. The Division has developed an organization chart that communicates the lines of authority and accountability relationships among the different Divisions. Each employee also receives an individual job description that defines the responsibilities and expectations of his or her position. In addition, the Division uses an annual Unemployment Insurance Director's Award to recognize the ideas and contributions from individual staff or teams to help maintain high employee morale. Furthermore, periodic performance evaluations are completed to ensure Division employees are meeting organizational expectations.

We found that the Department's Internal Control Officer (ICO) is conscious of internal controls, including OSC's Standards on Internal Control in NYS Government, which was used to implement the Department's internal control program. The ICO stated that the Department's Commissioner is very supportive of internal controls. The Commissioner created the Internal Control Unit, made the ICO a full time position, and assigned three staff to assist in internal control responsibilities. The ICO is currently a board member for the New York State Internal Control Association.

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 Division and the Unemployment Insurance system. Department management conveyed the message that internal control responsibilities are important through a variety of internal control brochures and an internal control newsletter. These brochures discuss internal controls and specify areas where they are important. The newsletter includes a message from Department management and details internal control activities the Department has in place.

The Division uses the Department's internet site to communicate unemployment insurance information to employers, claimants, and the general public. For example, the public may access newsletters that discuss current labor information. The Department also issues a monthly newsletter discussing the State's labor outlook and a biannual newsletter discussing labor information for the business community. On its website, the Division includes Unemployment Insurance laws and regulations, a handbook for claimants, registration and tax information for employers, instructions on how to complete a claim, and Unemployment Insurance to service locations.

Furthermore, Department management has established communication channels that enable its employees to effectively carry out their responsibilities. Specifically, they have posted a general administration manual on the Department's intranet site. The manual outlines the Department's major organizational policies and procedures. Also, the Department communicates to its employees their roles and responsibilities through written job descriptions.

Finally, the Department has established a communication channel that enables employees to submit their suggestions to improve organizational efficiency through an employee suggestion program.

Risk Assessment

Risks that potentially threaten the accomplishment 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 prevent risks 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 Division and the System. The Department has established an Internal Control Review (ICR) program. As part of this program, Department managers must complete an Internal Control Self-Assessment document. This document allows managers to periodically review their units' major functions and associated internal controls. A major part of this document is determining and assessing risk within the major functions. This allows management to think about the risks that threaten the major activities of their units and take action to prevent errors from occurring.

In addition, in 2005, the Division completed several ICRs. For example, Division management provided us with the following ICRs:

- Unemployment Insurance's Overpayment Unit;

- Unemployment Insurance’s Combined Wage Unit; and
- Unemployment Insurance’s Determination and Enforcement Office.

Control Activities

Control activities are policies, procedures and other safeguards that 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.

Department management provided us with adequate written support for control activities over its System. The Department has policies, procedures and workflow descriptions to assist personnel in carrying out their responsibilities. These documents include:

- Unemployment Insurance System Flowchart;
- Unemployment Insurance Claimant Handbook;
- Unemployment Insurance Tax Services Auditors Field Manual;
- Agent Assisted Claims Processing Procedures;
- Non-Monetary Claims Processing Procedures; and
- Unemployment Insurance Claims Processing Procedures.

Additionally, the Department has built controls into their System by creating edit checks. Edit checks are input controls that detect data entry errors and help verify data accuracy and completeness of information data-entered into the System.

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 System and the Division. The Department also monitors the number of customers served in relation to program goals through a performance report. Additionally, the Department monitors Unemployment Insurance by comparing the number of people employed and unemployed and the rates of unemployment from month to month.

Furthermore, the Department’s Unemployment Insurance program is monitored by the United States Department of Labor (USDOL). The USDOL Regional Office reviews the Unemployment Insurance program for adherence to applicable guidelines. 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 internal controls over its Unemployment Insurance 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 Department officials and reviewed documentation provided by Department personnel that supports their system of internal controls over the Division of Unemployment Insurance and unemployment insurance benefits.

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.

AUTHORITY

The audit was performed in accordance with 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.

REPORTING REQUIREMENTS

We provided copies of the matters contained in this report to Department officials for their review and comment. Their comments were considered 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

George E. Pataki, Governor



Linda Angello, Commissioner

September 13, 2006

Mr. William Challice
Office of the State Comptroller
Division of State Services
State Audit Bureau
123 William Street, 21st Floor
New York, New York 12236

Dear Mr. Challice:

This correspondence is to transmit the New York State Department of Labor's (NYSDOL) formal response to the Office of the State Comptroller (OSC) draft audit report addressing the Department of Labor's (Department) "Written Support of Internal Controls Over the Financial Reporting of Unemployment Insurance (UI) (2006-S-43)."

The draft report contains an appropriate assessment of the Department's system of internal controls, covering adequate written support for internal controls, management support for internal controls, documentation, training, communication channels, risk assessments, etc. regarding UI-related Financial Reporting systems.

The only comments the Department has are two slight amendments to the narrative:

- In the third paragraph under 'Information and Communication' the last sentence should be amended as follows:

"On its website, the Division includes Unemployment Insurance laws and regulations, a handbook for claimants, registration and tax information for employers, instructions on how to complete a claim, and Unemployment Insurance tax service locations."

- In the third paragraph under 'Risk Assessment' the report indicates several internal control reviews were completed by the UI Division. The Department provided the several reviews noted in the report as samples, but the UI Division in fact conducted reviews for all their units and major functions. In total there were internal control reviews done in 2005 for 22 assessable units covering 90 functions.

*
Comment

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

Mr. William Challice
September 13, 2006
Page Two

Thank you for the opportunity to respond. If you have any questions or would like any clarification, please contact me at (518) 457-9016.

Sincerely,



Karen Stackrow
Director of Internal Audit