

H. CARL McCALL  
STATE COMPTROLLER



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STATE OF NEW YORK  
OFFICE OF THE STATE COMPTROLLER

May 24, 2002

Mr. James W. McMahon  
Superintendent  
New York State Division of State Police  
State Campus, Building 22  
Albany, NY 12226

Re: Report 2001-F-54

Dear Mr. McMahon:

Pursuant 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 have reviewed the actions taken by officials of the Division of State Police as of April 11, 2002 to implement the recommendations contained in our audit report, *Division of State Police's Confidential Fund* (Report 99-S-5). Our report, which was issued on June 30, 2000, reviewed the effectiveness and efficiency system of internal controls for administering and utilizing the confidential fund accounts.

**Background**

The Division of State Police (Division) maintains a Confidential Fund with a total balance of \$194,500. The Division is authorized to use the fund to pay for various expenses incurred in conducting undercover investigations. The Office of the State Comptroller authorizes the accounts, and the Division maintains its fund balance in several checking accounts from which account managers make disbursements to investigators. Reimbursement for Confidential Fund expenditures is obtained by submitting a special voucher to the State Comptroller.

Confidential Fund expenditures do not undergo the same pre-audit process required for other State expenditures. The special vouchers that the Division submits to the State Comptroller's Office show only the amount to be reimbursed, so as not to compromise the confidential nature of the expenditures. Responsibility for proper use and documentation of Confidential Fund expenditures rests primarily with Division management.

**Summary Conclusion**

Our prior audit found that the Division had a strong system of internal controls over Confidential Fund accounts that ensured monies were used in an appropriate manner. We did find, however, that at the Menands and Loudonville troop sites, court restitution monies were being

deposited into their confidential fund accounts. As a result, the actual fund balances for these sites exceeded their approved fund balance by the amount of the restitutions. In addition, the individuals responsible for the bookkeeping and cashiering functions at the Menands and Loudonville sites were also responsible for reconciling the confidential fund bank accounts. This inadequate separation of key administrative functions increased the risk that funds could be used inappropriately.

We also found that the Division's central office did not assign staff to review Troop account reconciliations to ensure that they are prepared timely and accurately, and to aggregate and compare individual Troop accounts to the total fund balance.

In our follow-up review, we found that Division procedures now require that restitution monies be remitted to the State's General Fund in a timely manner. Also, Division staff, that are independent of the cashiering and bookkeeping functions for the Confidential Fund, prepare monthly bank reconciliations at each Troop. In addition, a central office employee reconciles individual accounts to the total fund balance.

### **Summary Status of Prior Audit Recommendations**

Division officials have implemented the two audit recommendations

### **Follow-up Observations**

#### **Recommendation 1**

*Remit restitution money to the State Comptroller's Office for deposit into the State's General Fund in accordance with the State Finance Law, or seek proper authorization through an appropriation to expend those funds.*

Status – Implemented

Agency Action – Troop sites now deposit restitution funds in a separate account, and twice a month a check is prepared to transfer the funds to the State's General Fund.

#### **Recommendation 2**

*Assign appropriate staff, who are independent of the bookkeeping and cashiering functions for the Confidential Fund, to prepare monthly bank reconciliations. Also, individual fund accounts should be aggregated and reconciled to the total authorized fund balance.*

Status – Implemented

Agency Action – At each Troop site, the Division assigned staff that are independent of the cashiering and bookkeeping functions for the Confidential Fund, to prepare the monthly bank reconciliations. In addition, an employee at the Division's central office was assigned to prepare aggregate reconciliation statements for the total authorized fund balance. The Division's central office also sends staff out to the Troop sites to conduct periodic reviews of

Troop account activity to ensure accounts are reconciled properly. If problems are identified, recommendations for corrective action are made to the respective Troops.

Major contributors to this report were Brian Lotz and Legendre Ambrose.

We thank the management and staff of the Division of State Police for the courtesies and cooperation extended to our auditors during this review.

Very truly yours,

William P. Challice  
Audit Director

cc: Deirdre A. Taylor, DOB