

ALAN G. HEVESI
COMPTROLLER



110 STATE STREET
ALBANY, NEW YORK 12236

STATE OF NEW YORK
OFFICE OF THE STATE COMPTROLLER

April 26, 2004

Mr. Richard P. Mills
Commissioner
New York State Education Department
State Education Building
Albany, New York 12234

Re: Controls Over State Aid Processing
Report 2003-S-25

Dear Mr. Mills:

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 audited the New York State Education Department's (Department) controls over access to the State Aid System and its provisions for protecting information resources from unauthorized changes and unforeseen events. Our audit covered the period April 1, 2002 through August 31, 2003.

A. Background

Public elementary and secondary education in New York State is financed primarily by State and local tax revenues, along with lesser amounts of federal education funds. Although the State's revenue commitment, called State Aid, fluctuates from year to year, it represents a significant source of funds for the support of overall education costs. For example, according to the latest figures available from the Department, revenues to school districts from State sources for the 2000-01 school year, which totaled more than \$15 billion, paid for about 46 percent of school districts' expenditures for that year. The Department authorizes payment of State Aid monies calculated according to a complex series of formulas defined in the Education Law. Many of these formulas must be adjusted every year to account for changes that occur in the State budget enacted by the Legislature.

The Department's State Aid Unit (Unit) within the Office of Fiscal Services calculates State Aid payments. To do this, the Unit gathers data for each school year through various means (internet site, e-mail, tapes, floppy disks, etc.) from school districts, Board of Cooperative Educational Services (BOCES) offices, other Department offices and State agencies, and stores the collected data on the State Aid Processing System (System). After reviewing and editing the data

for completeness and reasonableness, Unit staff applies the data to State Aid formulas on the System to calculate districts' State Aid payments. The Department then authorizes the Office of the State Comptroller (OSC) to pay State Aid. OSC makes about 10,000 payments annually to 750 school districts and BOCES.

To enable school districts to submit or edit their State Aid data electronically, the Department maintains a State Aid website that allows district personnel to access State Aid information through a software package called Data Entry Assistant (DEA). To help ensure that only authorized district personnel access district State Aid information, DEA requires that users have an electronic identifier that is unique to the individual user.

The Department's Information Technology Services Unit (ITS) is responsible for operating the System and for controlling access to the Department's network and the State Aid website. ITS responsibilities include making programming changes to the System's mainframe component to correctly adjust the State Aid formulas. Unit programmers make needed changes to the State Aid website and DEA software to allow districts ready access to data. To protect the integrity of State Aid data, the Department's Information Security Policy (Policy) requires that the Department's Information Security Officer be notified of changes in employee status or job function, such as job termination or transfer. ITS is responsible for making the necessary changes to cancel or restrict such individuals' rights to access State Aid information. The Policy further requires that the Department have procedures in place to prevent and detect information security breaches, and to recover from disasters.

B. Audit Scope, Objective and Methodology

Our audit examined the general and application information technology (IT) controls over the System for the period April 1, 2002 through August 31, 2003. The objective of our performance audit was to determine if the Department's controls and procedures are sufficient to ensure the integrity of data maintained and processed within the System, and continuous processing in the event of a disaster or other mishap.

To accomplish our objective, we reviewed the Office for Technology's (OFT) New York State Preferred Standards and Procedures for Information Security, OFT Technology Policy 99-2, the Comptroller's Standards for Internal Control in New York State Government and Department policies and procedures. We interviewed Department officials regarding controls over the System, and reviewed documentation, logs and reports provided by the Department. In addition, we obtained a list of employees no longer with the Department to determine if their security status was adjusted to reflect their change in employment status. We also contacted a random sample of 25 school districts to determine if the districts' lists of persons designated to submit and edit data through the State Aid website agreed with the lists maintained at the Unit.

We conducted our audit in accordance with generally accepted government auditing standards. Such standards require that we plan and perform our audit to adequately assess those operations of the Department which are included within our audit scope. Further, these standards require that we understand the Department's internal control structure and its compliance with those laws, rules and regulations that are relevant to the operations which 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 that 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 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

Overall, we found that Department controls over access to the System were effective. We did make several recommendations to further strengthen controls pertaining to the general and application IT controls over the State Aid Processing System. These recommendations were presented to Department officials throughout the audit. To further ensure the security of the System, these detailed recommendations are not included in this report. Department officials indicate that they agree in part with our recommendation. Their comments have been considered in the preparation of this report and are included as Appendix A.

Recommendation

Implement the recommendations detailed to the Department during the audit for strengthening IT security controls over the System.

Within 90 days after the final release of this report, as required by Section 170 of the Executive Law, the Commissioner of the State Education Department 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 Brian Mason, Karen Bogucki, Mike Farrar, Cindy Herubin, Elizabeth Dunn, Kelly Downes, Kristen Stangle and Nancy Varley.

We wish to thank the management and staff of the State Education Department and the school districts we visited for the courtesies and cooperation extended to our auditors during the audit.

Very truly yours,

Steven E. Sossei
Audit Director

cc: Robert Barnes, Division of the Budget



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

CHIEF OPERATING OFFICER
DEPUTY COMMISSIONER FOR THE
OFFICE OF MANAGEMENT SERVICES
Tel. (518) 474-2547
Fax (518) 473-2827
E-mail: tsavo@mail.nysed.gov

March 3, 2004

Mr. Steven E. Sossei
Audit Director
State of New York
Office of the State Comptroller
110 State Street
Albany, New York 12236

Dear Mr. Sossei:

I am responding to the draft report of the Office of the State Comptroller's audit: (2003-S-25) State Education Department Controls Over State Aid Processing. We appreciate that in order to ensure the security of our systems, the working draft report contained no detail about the audit findings and no specific recommendations. SED has responded to the detailed audit findings and recommendations under separate cover.

*
Note

Please note that the audit results section of this report does not reflect one of the findings -- that "Department controls over System access were effective overall." I would request that this statement be included in your final report.

Recommendation

Implement the recommendations detailed to the Department during the audit for strengthening IT security controls over the System.

We agree in part with this recommendation, as detailed in the SED response to the document containing detailed findings and specific recommendations.

If you have any questions, contact Andrea Hyary at 518-474-2977.

Sincerely,

Handwritten signature of Theresa E. Savo in cursive script.

Theresa E. Savo

c: Andrea Hyary

*State Comptroller's Note: Statement added to the report.