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COMPTROLLER



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STATE OF NEW YORK
OFFICE OF THE STATE COMPTROLLER

February 1, 2005

Mr. Richard Warrender
State Advocate
NYS Office of Advocate for Persons with Disabilities
One Empire State Plaza, Suite 1001
Albany, NY 12223

Re: Report 2004-Q-14

Dear Mr. Warrender:

Pursuant to the New York State Governmental Accountability, Audit and Internal Control Act of 1987 (Act), as revised in 1999, the management of the New York State Office of Advocate for Persons with Disabilities (Office) is responsible for establishing and maintaining an effective system of internal controls and a program of internal control review. State agencies and authorities must annually certify their compliance with important provisions of internal control to the Division of the Budget (DOB) in accordance with Budget Policy and Reporting Manual Item B-350. We have examined Office management's certification of compliance for the year ended March 31, 2004. Office management is responsible for the certification. Our responsibility is to express an opinion on the certification based on our examination.

Background

The Office, a State agency, works to promote the inclusion of persons with disabilities in all aspects of community life by supporting public policies which afford them the opportunity to exercise all of the rights and responsibilities accorded to all residents of New York State. In addition, the Office plays an active role in developing innovative opportunities and supports that respond to the needs of New Yorkers with disabilities. Headed by the State Advocate who is appointed by the Governor, the Office is headquartered in Albany and has 15 staff. In the fiscal year ended March 31, 2004, the Office received approximately \$951,000 in General Fund appropriations. At the start of our audit period, the Commission on Quality of Care for the Mentally Disabled (CQC) began providing administrative support to the Office by assuming responsibility for some of the Office's financial operations. CQC has assumed some or all responsibility for revenue billing and collection, cash receipts and disbursements, payroll, budgeting, and accounting systems. In most cases, CQC processes transactions based on approvals from Office management.

Examination Objective and Methodology

The objective of our examination was to determine whether the Office's certification for the year ended March 31, 2004 is fairly stated in all material respects. Our examination was conducted in accordance with Generally Accepted Government Auditing Standards, which include the attestation standards established by the American Institute of Certified Public Accountants. Accordingly, we examined, on a test basis, evidence supporting management's certification and performed such other procedures as we considered necessary in the circumstances. In particular, we performed tests to determine whether management has established policies and procedures that provide an appropriate level of internal control over basic financial operations and to determine whether Office employees follow those policies and procedures.

To accomplish this objective, we interviewed appropriate Office and CQC officials and reviewed applicable policies and procedures governing the following significant financial operations: revenue and collections; cash and investments; payroll; procurement and contracting; equipment and asset management; budgeting and expenditure control; and accounting and information systems. We interviewed Office and CQC staff responsible for these financial operations and performed limited compliance testing to provide assurance that Office and CQC employees follow established policies and procedures. We believe our examination provides a reasonable basis for our opinion.

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.

Results of Examination

The Act requires agencies to maintain a system of internal control review that is structured, well-documented, and designed to identify internal control weaknesses and the steps necessary to correct these weaknesses. The Office's certification states that it has tested its time and attendance procedures and its travel payments. However, management could not provide us with any evidence that these tests were actually performed. The Act requires agencies to implement education and training efforts to ensure that officers and employees have achieved an appropriate level of awareness and understanding of internal control standards and, where appropriate, evaluation techniques. The Office's certification states that it meets this requirement through staff meetings, periodic team meetings and written notices. However, Office officials could not provide evidence that these meetings had occurred or that the written notices had been distributed to employees. In addition, the Act requires agencies to periodically evaluate the need for an internal audit function.

Office officials provided no evidence that they have performed this evaluation. We believe these conditions represent weaknesses in the Office's certification process.

In our opinion, except for the effect of the weaknesses described in the preceding paragraph, management's certification referred to above is fairly stated in all material respects based on the criteria set forth in the Act and Item B-350. In addition, we noted the following instances in which the Office could either improve its system of internal controls, or strengthen the adherence to existing policies and procedures. Office officials indicated that they are currently reviewing their overall operations and will seek to formalize, establish, improve or update policies and procedures over these areas. (A summary table addressing specific questions related to each of the Office's basic financial operations is attached as Table I.)

- The Office collects about \$180,000 annually from two sources: a disability and technical assistance fund from Cornell University and an enterprise fund established to support a bi-annual conference. The Office should maintain a daily log of cash receipts so it can ensure that all cash received is properly recorded and deposited into the correct bank account. The Office maintains no such log of cash receipts. Thus, we could not verify that all cash received was properly recorded and deposited.
- An agency should maintain a comprehensive equipment inventory listing and have a method to identify its equipment. The Office maintains an inventory of its 15 computer work stations, some of which are tagged, but does not include any other equipment on this inventory. In addition, Office management has not promulgated written equipment inventory policies and procedures, including those for maintaining and periodically verifying equipment inventory records. Not having a comprehensive equipment inventory process increases the potential for equipment to be lost, stolen or misplaced without management's knowledge. Office officials stated that CQC performed a comprehensive inventory of the Office's equipment during our examination. However, the results of this inventory were not available at the time we completed our examination.
- To promote effective communication with staff and to monitor financial operations more efficiently, an agency should commit policies and procedures to writing. At the start of our examination, the Office had written policies and procedures for payroll and procurement and contracting, but did not have them for the following areas: revenue and collections; cash and investments; equipment and asset management; budgeting and expenditure control; and accounting and information systems. During the course of our examination, CQC put into writing the policies and procedures for all of the Office's financial operations.

Major contributors to this examination were John Buyce, Joel Biederman, Greg Petschke, Stephen Capozza, Jeremy Zierler, and Matthew Phillips.

We welcome your comments in response to this examination. We wish to express our appreciation to the management and staff of the Office and CQC for the courtesies and cooperation extended to our auditors during this examination.

Very truly yours,

Frank J. Houston
Audit Director

cc: Robert Barnes, Division of the Budget
Richard H. Schaefer, CQC

**OFFICE OF ADVOCATE FOR PERSONS WITH DISABILITIES
INTERNAL CONTROLS OVER BASIC FINANCIAL OPERATIONS**

A colored “traffic light” legend is included in the table below to assist management in focusing an appropriate level of attention on the issues identified in the Office Activities and Comptroller’s Comments sections of the Examination Findings.

Legend:

	Activities/Comments contain matters that should be of immediate concern to management.		Activities/Comments contain matters which management should consider correcting.		Activities/Comments do not contain issues that require management’s immediate consideration.
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Examination Findings: As part of our examination, we sought answers to a series of questions and reviewed selected Office records related to certain basic financial operations. Our questions in each area, along with a summary of the Office’s activities and our comments, are presented below.

	QUESTION	OFFICE ACTIVITIES	COMPTROLLER’S COMMENTS
Revenue & Collections:			
	Do the Office’s internal controls provide assurance that revenues are billed timely and accurately and are recorded properly in the accounting records?	The Office receives revenues from annual State appropriations, as well as two other sources. At the start of our examination, neither the Office nor CQC had developed written billing policies and procedures. However, CQC developed written procedures for the Office during the course of our examination. Billing functions for one account are in place at CQC, and CQC has plans to take over billing for the other account that is currently handled by the Office. The procedures in use provide assurance that revenues are billed timely and accurately and are recorded properly in the accounting records.	Our examination indicates that these controls are functioning as intended.
	Do the Office’s internal	Collections for one account are	Our examination indicates that these

	QUESTION	OFFICE ACTIVITIES	COMPTROLLER'S COMMENTS
	<p>controls provide assurance that revenues are being collected timely?</p>	<p>currently handled by the Office, with the goal of transferring the function to CQC as soon as possible. All other collection functions have been transferred to CQC, which follows policies and procedures to ensure that revenues are collected timely and accurately.</p>	<p>controls are functioning as intended.</p>
<p>Cash and Investments:</p>			
	<p>Do the Office's internal controls provide assurance that cash and investments are properly safeguarded, accounted for, and deposited into the appropriate accounts?</p>	<p>The Office restrictively endorses checks upon receipt. However, it does not maintain a log of cash receipts.</p>	<p>Because the Office does not maintain a log of cash receipts, we were unable to verify that all cash received was recorded in the accounting records and deposited in the appropriate bank account.</p>
	<p>Do the Office's internal controls provide assurance that cash disbursements are properly authorized and recorded?</p>	<p>The Office completes purchase request forms that are approved and mailed to CQC where they are reviewed by the Deputy Director. CQC enters all disbursements into the State's Central Accounting System, and entries are reviewed by a CQC budget analyst.</p>	<p>Our examination indicated that these controls are operating as intended.</p>
<p>Payroll:</p>			
	<p>Do the Office's internal controls provide assurance that employee time and attendance records are accurate and that leave time is accounted for and recorded properly?</p>	<p>Office employees use a basic time sheet to keep track of time and attendance. Supervisors approve time records before they are processed. Employees track their leave accruals from pay period to pay period and their balances are independently verified by CQC.</p>	<p>Our examination indicated that these controls are operating as intended.</p>
	<p>Do the Office's internal controls provide assurance that payroll changes (e.g., additions, deletions, and overtime) are processed accurately and timely?</p>	<p>After obtaining authorization from Office officials, CQC processes the Office's payroll changes. The Office does not pay overtime.</p>	<p>Our examination indicated that these controls are operating as intended.</p>

	QUESTION	OFFICE ACTIVITIES	COMPTROLLER'S COMMENTS
Procurement & Contracting:			
	Do the Office's internal controls provide assurance that purchases are authorized, received, and recorded properly?	Any employee can request goods or services. The purchase requests require supervisory authorization and are submitted to the Fiscal Officer and the State Advocate, where appropriate, for approval.	Our examination indicated that these controls are operating as intended.
	Do the Office's internal controls provide assurance that purchases are reasonable and necessary and made in an economical and efficient manner?	The Office bases its purchases on the most efficient use of available resources, and its procedures are intended to comply with the State's purchasing guidelines.	Our examination indicated that these controls are operating as intended.
Equipment & Asset Management:			
	Do the Office's internal controls provide assurance that equipment acquisitions and dispositions are authorized and recorded properly, and that a comprehensive inventory of equipment is maintained?	At the start of our examination, the Office had an inventory of computer equipment, but did not have an inventory of other equipment. However, during our examination, Office officials stated that CQC performed a comprehensive inventory, the results of which have not yet been reported to the Office.	Our examination indicated that the Office equipment inventory was not accurate because: most of the equipment was not tagged; most computers were not on the inventory list; and we located several obsolete items that should have been disposed of. Office officials indicated they did not have the necessary manpower to dispose of these items in the manner prescribed to them by the Office of General Services.
	Do the Office's internal controls provide assurance that equipment is secured properly and used as intended?	The Office has one vehicle that is used mainly by the State Advocate. Policies and procedures address personal use of equipment.	Our examination revealed that the Office does not keep a maintenance and usage log for its vehicle. In addition, we found that the Office's computers did not have inappropriate websites blocked.
Budgeting & Expenditure Control:			
	Do the Office's internal controls provide assurance that the Office's annual budget is prepared accurately and timely?	The operations and activities sections of the budget request are prepared by the Office and forwarded to CQC. CQC completes the financial information based on the previous budget and any additional requests.	Our examination indicated that these controls are operating as intended.
	Do the Office's internal	At the beginning of the fiscal year,	Our examination indicated that these

	QUESTION	OFFICE ACTIVITIES	COMPTROLLER'S COMMENTS
	<p>controls provide assurance that actual operating results are monitored against budgeted estimates and that appropriate revisions to current and future budgets are made as warranted by these operating results?</p>	<p>CQC compares projected expenditures to the State appropriations. CQC subsequently tracks expenditures quarterly against appropriated funds based on all major categories of expenditures.</p>	<p>controls are operating as intended.</p>
<p>Accounting & Information Systems:</p>			
	<p>Do the Office's accounting and information systems provide assurance that management has access to timely, accurate and relevant information?</p>	<p>CQC utilizes accounting system reports generated monthly by OSC to monitor whether payments are both accurate and timely.</p>	<p>Our examination indicated that these controls are operating as intended.</p>
	<p>Do the Office's internal controls provide assurance that the accounting and information systems are secure and that the information is recoverable in case of system failure?</p>	<p>The Office controls access to its accounting and information systems through passwords. The Office contracts out its intrusion protection to a third party. However, neither of these protections was instituted until September 2004. Thus, prior to this time, the systems were not adequately protected from either internal or external misuse. The Office has system backup and recovery procedures in place.</p>	<p>Our examination found that the password and intrusion protection procedures are now adequate. However, neither was in place prior to September 2004. The Office follows its procedures for backing up and recovering its systems in case of failure.</p>