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COMPTROLLER



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STATE OF NEW YORK
OFFICE OF STATE COMPTROLLER

February 7, 2006

Mr. Neal E. Lane
Director
Office for the Aging, State of New York
2 Empire State Plaza
Albany, NY 12223

Re: Report 2005-Q-7

Dear Mr. Lane:

Pursuant to the New York State Governmental Accountability, Audit and Internal Control Act of 1987 (Act), as revised in 1999, the New York State Office for the Aging (SOFA) 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 in accordance with Budget Policy and Reporting Manual Item B-350. We have examined the efforts of SOFA management to certify the agency's compliance for the year ended March 31, 2005. Our responsibility was to express an opinion on the certification based on our examination.

Background

SOFA promotes, coordinates and administers State, Federal, and local programs and services for 3.2 million New Yorkers aged 60 and older. SOFA also provides leadership and direction to 59 Area Agencies on Aging that plan, coordinate, and provide the elderly with services. Many such agencies, which are sponsored by county and municipal governments, tribal governments, and not-for-profit organizations, subcontract with private organizations to deliver these services.

With a workforce of 135, SOFA is headed by a Director and is composed of three divisions: Executive, Finance and Administration, and Local Program Operations. Approximately 36 percent of SOFA's operations are funded by the General Fund; the remaining 64 percent are financed by Federal grants. During the fiscal year ended March 31, 2005, SOFA budgeted \$187 million in State and Federal funds to underwrite both agency operations and community-based services for the elderly. An additional \$117 million was re-appropriated from previous years' budgets.

Examination Objective and Methodology

The objective of our examination was to determine whether SOFA's certification 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 SOFA employees follow those policies and procedures.

To accomplish this objective, we interviewed appropriate SOFA 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 SOFA staff responsible for these financial operations and performed limited compliance testing to provide assurance that SOFA 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

In our opinion, SOFA's management certification is stated fairly in all material respects, based on the criteria set forth in the Act and Budget Policy and Reporting Manual Item B-350. We believe that, overall, SOFA management has established an effective system of internal control over its financial operations. A summary table addressing specific questions related to each of the agency's basic financial operations is attached as Table I.

Major contributors to this examination were Richard Sturm, Brian Lotz, John Lang, Anthony Calabrese and Marticia Madory.

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

Very truly yours,

William P. Challice
Audit Director

cc: Robert Barnes, Division of the Budget

**STATE OFFICE FOR THE AGING
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 Agency Activities and Comptroller’s Comment 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.
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Examination Findings: As part of our examination, we sought answers to a series of questions and reviewed selected agency records related to certain basic financial operations. Our questions in each area, along with a summary of the agency’s activities and our comments, are presented below.

	QUESTION	AGENCY ACTIVITIES	COMPTROLLER’S COMMENT
Revenue & Collections:			
	Do the agency’s internal controls provide assurance that revenues are billed timely and accurately and are recorded properly in the accounting records?	SOFA does not collect or record revenues.	Our review of SOFA’s operations found the agency has no significant revenues to collect or record. Therefore, no tests were performed.
	Do the agency’s internal controls provide assurance that revenues are being collected timely?	See above.	See above.

	QUESTION	AGENCY ACTIVITIES	COMPTROLLER'S COMMENT
Cash & Investments:			
	Do the agency's internal controls provide assurance that cash and investments are properly safeguarded, accounted for, and deposited into the appropriate accounts?	SOFA has not established detailed written procedures for the disbursement, collection or investment of cash.	Our review of SOFA's operations found that SOFA maintains a bank account with a consistent balance of about \$538. During the 18 months ending June 30, 2005, just 6 small transactions had taken place in this account, involving payments from employees who lost their identification cards. Given the small balance of cash maintained, no investment procedures are necessary. Therefore, no tests were performed.
	Do the agency's internal controls provide assurance that cash disbursements are authorized and recorded properly?	See above.	See above.
Payroll:			
	Do the agency's internal controls provide assurance that employee time and attendance records are accurate and that leave time is accounted for and recorded properly?	SOFA uses an automated time and attendance system to maintain leave accrual records for its staff, who are encouraged to fill out their electronic time sheets daily. At the end of each pay period, they certify the accuracy of their time sheet entries by signing the document electronically. Supervisors are notified automatically that the time sheet is ready to be reviewed. Supervisors are expected to maintain and update a daily attendance record that identifies the status of employees' leave usage and attendance at work.	We found that the supervisors' record of staff attendance for a randomly-selected sample of five staff was current on August 9, 2005. We also found the scope of the Human Resources audits of supervisors' staff attendance records selected for review was thorough and the reports contained useful recommendations. Finally, we found that all of the leave recorded on the five official time sheets in our randomly-selected sample had been posted properly to staff summary leave records; and also that the resulting leave accrual balance was mathematically-correct.

	QUESTION	AGENCY ACTIVITIES	COMPTROLLER'S COMMENT
		<p>Once approved, these leave accrual records are updated automatically for the pay period.</p> <p>Once a year, SOFA Human Resources staff perform unannounced audits of the supervisors' daily staff attendance records. The results of these audits are reported in writing to each supervisor.</p>	
	<p>Do the agency's internal controls provide assurance that payroll changes (e.g., additions, deletions, and overtime) are processed accurately and timely?</p>	<p>Personnel transactions are reviewed by a status examiner at the Department of Civil Service. SOFA's Assistant Director of Finance and Administration reviews the payroll forms and monitors the documentation submitted to support additions and deletions. Supervisors are responsible for the authorization and approval of overtime when eligible staff are needed for work beyond their normal schedules.</p>	<p>Our testing of a sample of four payroll additions (including new hires, transfers, and promotions) during our scope period revealed that all of the payroll changes were accurate and had been approved by the Assistant Director of Finance and Administration. Our testing of a sample of two deletions that had been made because the employees retired showed that these staff were no longer receiving a salary as of the approved retirement date. We performed no specific tests of overtime controls because less than \$15,000 had been paid during the fiscal year ending March 31, 2005.</p>
<p>Procurement & Contracting:</p>			
	<p>Do the agency's internal controls provide assurance that purchases are authorized, received, and recorded properly?</p>	<p>SOFA uses requisitions, purchase orders, and receiving reports to create an appropriate audit trail that makes it possible to account for agency purchases. Use of State credit cards is controlled through reviews of requisition forms and monthly credit card expenditure summaries. Purchasing duties are segregated properly among agency staff as a safeguard against unauthorized and</p>	<p>Our review of the support for ten purchases and five credit card transactions found that all had been authorized, received, and recorded properly.</p>

		inappropriate purchases.	
	QUESTION	AGENCY ACTIVITIES	COMPTROLLER'S COMMENT
	Do the agency's internal controls provide assurance that purchases are reasonable and necessary and made in an economical and efficient manner?	SOFA frequently procures goods and service through Statewide OGS contracts. SOFA management also directs staff to seek alternative vendors for purchases not subject to State bidding requirements or covered by Statewide contracts.	We found that our sample of ten purchases and five credit card transactions had all been made in accordance with State procurement guidelines.
Equipment & Asset Management:			
	Do the agency's internal controls provide assurance that equipment acquisitions and dispositions have been authorized and recorded properly, and that a comprehensive inventory of equipment is maintained?	SOFA's procedures provide assurance that equipment acquisitions and dispositions have been authorized and recorded properly. A comprehensive equipment inventory is also maintained. SOFA tags all equipment and notes its location on a comprehensive inventory listing.	We were able to locate all ten equipment items in our sample, and noted that each item had an appropriate inventory tag. We also traced two purchases of equipment from purchasing records to the inventory records and located these items at SOFA.
	Do the agency's internal controls provide assurance that equipment is secured properly and used as intended?	In general, equipment items are in locked spaces assigned to individuals; and SOFA has established procedures that stipulate authorized usage. Use of State vehicles is controlled through assignment logs, mileage reports and specific rules prohibiting personal use.	SOFA's policies and procedures provide assurance that equipment is secured properly and used as intended.
Budgeting & Expenditure Control:			
	Do the agency's internal controls provide assurance that its annual budget is prepared accurately and timely?	SOFA's budget is prepared and approved as a part of the State budget process. It has both administrative and local government assistance components. Funding requests for the administrative component rely heavily upon historical spending. The local government assistance component is determined by	During the State's fiscal year ending March 31, 2005, about \$7 million was expended for personal services; while \$1.4 million was expended on other than personal services. We found that State funding has remained fairly consistent and that SOFA had submitted its budget to the Governor's Office on time during our audit period.

	QUESTION	AGENCY ACTIVITIES	COMPTROLLER'S COMMENT
		State and Federal legislative action.	
	Do the agency's internal 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?	SOFA has established separate accounts on the State accounting system to track special appropriations such as funding for studies or other unique purposes. SOFA also periodically tracks expenditures to assess compliance with specified State and Federal requirements.	SOFA is a small State agency with a budget designed to support a stable organizational structure. Most of its budget comprises legislatively-determined local government assistance funds. We believe SOFA has established sufficient processes for the proper monitoring of budget activity.
Accounting and Information Systems:			
	Do the agency's accounting and information systems provide assurance that management has access to timely, accurate, and relevant information?	Most of SOFA's appropriations are used for funding grants to 59 Area Agencies on Aging that deliver services to the elderly. State funds are tracked to assure compliance with appropriate authorizations. Federal funds are tracked to ensure compliance with terms of the grants.	SOFA controls seem to provide reasonable assurance that information is accurate, relevant, and available to management on a timely basis. Periodic management meetings are held to assess progress in achieving agency goals and to compare actual results with budgeted amounts.
	Do the agency's internal controls provide assurance that the accounting and information systems are secure and that the information is recoverable in case of system failure?	SOFA's accounting information is stored on the State Accounting System. Access to SOFA's Local Area Network (LAN) is protected by user identification numbers and passwords. Access can be gained only through agency-provided Ethernet connections; no wireless connection is permitted. External access to data in SOFA's information systems is protected by firewalls. Only specified information technology staff are authorized to put applications on the LAN. Computer servers and data storage units are kept	SOFA's controls can provide reasonable assurance that the LAN is secure and that information could be recovered if it fails.

	QUESTION	AGENCY ACTIVITIES	COMPTROLLER'S COMMENT
		in a locked room with limited access. SOFA performs a monthly backup of its entire LAN and uses software to detect and eradicate viruses. It also uses a combination of spyware software to detect and eradicate spyware.	