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STATE OF NEW YORK
OFFICE OF THE STATE COMPTROLLER

April 25, 2006

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

Re: Report 2006-F-3

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 followed up on the actions taken by officials of the New York State Education Department (Department) to implement the recommendations contained in our audit report, *Controls Over State Aid Processing* (Report 2003-S-25).

Background, Scope and Objectives

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 financial commitment (called State Aid) fluctuates from year to year, it represents a significant source of funds in support of school districts' education programs. The Department authorizes payment of State Aid according to a complex series of formulas defined in the State Education Law.

Many of these formulas must be adjusted every year to account for changes that occur in the State budget, as enacted by the Legislature. For the 2005-06 school year, total State Aid is about \$16.4 billion.

The Department's State Aid Unit (Unit), within the Office of Fiscal Services, calculates State Aid payments pursuant to the formulas established by the Legislature. To do this, the Unit gathers pertinent program and fiscal data through various means (internet site, e-mail, tapes, floppy disks, etc.) from the 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 make State Aid payments to the districts.

At the time of our initial audit, the Department maintained a State Aid website that allowed district personnel to access State Aid information through a software package called the Data Entry Assistant (DEA). The DEA enabled school districts to submit and edit their State Aid data electronically. Since our initial audit, the Department has implemented the State Aid Management System (SAMS), which replaced the DEA. To help ensure that only authorized district personnel access district State Aid information, SAMS 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 System operations and for controlling access to the Department's network, including the System and State Aid website. ITS is also responsible for making programming changes to the System to reflect the legislature's adjustments to the various State Aid formulas. Unit programmers make the changes to the State Aid website and supporting software to enable districts to submit and edit their System data on-line. To protect the integrity of System data, the Department's Information Security Policy (Policy) requires Human Resources officials to notify the Department's Information Security Officer of changes in employees' employment status or job functions, including terminations and transfers. ITS is responsible for making the program changes needed to cancel, restrict, or expand individuals' ability to access, submit, and/or edit System information. The Policy further requires the Department to have procedures to prevent and detect System security breaches and to recover from disasters.

Our initial confidential draft audit report, which was issued on April 26, 2004, examined the general and application controls over the System for the period April 1, 2002 through August 31, 2003. The primary objective of our performance audit was to determine if the Department's controls and procedures were sufficient to ensure the integrity of data maintained and processed within the System. In addition, we sought to determine if the Department had sufficient procedures to ensure continuous System processing in the event of a disaster or other mishap. Our initial audit concluded that the Department's controls over the System were generally sufficient to ensure the integrity of data maintenance and processing. However, we did make several recommendations to further strengthen controls pertaining to certain System general and application controls. The objective of our follow-up review, which was conducted in accordance with generally accepted government auditing standards, was to assess the extent of implementation as of April 13, 2006 of the recommendations provided to Department officials during our initial audit.

Summary Conclusions and Status of Audit Recommendations

We provided detailed results of our follow-up review to Department officials during the conduct of the review. Overall, we found that Department officials had made considerable progress in implementing most of our initial audit's recommendations. The specific details of our follow-up findings pertaining to the status of audit recommendations are not identified here due to the sensitivity of the information and the potential risk associated with the release of such information.

Major contributors to this report were Bill Clynes, Don Collins, and Stacey Potaczala.

We would appreciate your response to this report within 30 days, indicating any actions planned to address any unresolved issues addressed by the review. We also thank the management and staff of the Department for the courtesies and cooperation extended to our auditors during this process.

Very truly yours,

Brian E. Mason
Audit Manager

cc: Ms. Lisa Ng, Division of the Budget
Ms. Theresa Savo, State Education Department
Mr. Michael Abbott, State Education Department