
**Alan G. Hevesi
COMPTROLLER**



Audit Objective..... 2

Audit Results - Summary..... 2

Background..... 2

Audit Findings 3

Control Environment..... 3

Information and Communication..... 3

Risk Assessment..... 4

Control Activities 4

Monitoring..... 4

Audit Scope and Methodology..... 5

Authority 5

Reporting Requirements..... 6

Contributors to the Report 6

Appendix A - Auditee Response 7

**OFFICE OF THE
NEW YORK STATE COMPTROLLER**

DIVISION OF STATE SERVICES

DEPARTMENT OF HEALTH

**WRITTEN SUPPORT OF
INTERNAL CONTROLS
OVER THE eMedNY
SYSTEM**

Report 2006-S-40

AUDIT OBJECTIVE

Our purpose was to find out whether the Department of Health (Department) has written support for internal controls over the eMedNY system. This system produces the financial information for reporting Medicaid payment data to the Office of the State Comptroller (OSC) for use in the State's Comprehensive Annual Financial Report.

AUDIT RESULTS - SUMMARY

We found that the Department has adequate written support over its internal controls for the eMedNY system. We believe these controls, as written, and if followed, should decrease the risk of significant misstatements in the financial information the Department reports to OSC for the State's Comprehensive Annual Financial Report. Documentation consisted of mission, goals, and values statements; performance evaluations; administrative policy and procedures manual; risk assessments; and information from eMedNY's website. Department officials provided ample current documentation to support the five components of internal control.

This report, dated October 4, 2006, is available on our website at: <http://www.osc.state.ny.us>. Add or update your mailing list address by contacting us at: (518) 474-3271 or Office of the State Comptroller
Division of State Services
State Audit Bureau
110 State Street, 11th Floor
Albany, NY 12236

BACKGROUND

Internal controls are a combination of attitudes, policies, and efforts of the people within an organization working together to achieve the organization's objectives and mission. A strong system of internal controls benefits all aspects of an organization's operations; it improves the reliability of organizational operations, provides confidence that an organization is using funds and resources efficiently and effectively, and provides comfort that assets and resources are well protected and managed. Written support of these controls is essential to an organization because it provides its employees with guidance on proper behavior, job expectations, and how to attain organizational objectives and goals. In addition, written support provides the public with a level of assurance that the financial information reported by the organization is accurate and reliable. All State agencies are required by law to put into practice a system of internal controls over their operations. Agency management is responsible for making sure this system of internal controls has been developed, implemented, and communicated throughout the organization.

The Department administered over \$40 billion in disbursements for Medicaid claims for the fiscal year ended March 31, 2006. eMedNY is an automated claiming system created, implemented, and managed by Computer Sciences Corporation (CSC) under contract with the Department; financial data generated by this system is submitted to OSC for inclusion in the State's Comprehensive Annual Financial Report. This audit focused

on the Department's written support of internal controls for the eMedNY system. The audit did not include tests of the controls for processing transactions through the eMedNY system. These tests are performed through some of the activities we refer to later in this report.

AUDIT FINDINGS

Control Environment

Control environment is the attitude toward, and awareness of, internal control by management and employees of an organization. It is the product of management's philosophy, style and supportive attitude, as well as the competence, ethical values, integrity, and morale of the organization's people. Organization structure and accountability relationships are key factors in the control environment.

Department management provided us with adequate written support for the control environment over eMedNY. There are several units within the Department that work with the eMedNY system. Each unit's management develops its own mission statement and organization chart. The mission statement provides staff with a sense of the unit's purpose and objectives. The organization chart provides staff with high-level policy and organizational structure.

To promote accountability among unit staff, management uses annual employee performance evaluations. The evaluations gauge employee success in performing specific job related tasks, include supervisory comments, and assign a performance rating of satisfactory or unsatisfactory. In addition to promoting employee accountability, the annual performance evaluation supports a

policy that provides for the competency of employees working within each unit.

We further noted that the Department has an Internal Control Officer (ICO) who is assisted by the Director of Operations Management (Director). The ICO and the Director are conscious of internal controls and their importance to the organization. The Director is knowledgeable about the Department's internal control practices and works closely with the ICO to establish internal control measures for the Department. At the time of our audit, the Department was updating its administrative policies and procedures to better reflect current internal control practices. In addition, the ICO and the Director participate in the functions of the New York State Internal Controls Task Force.

Information and Communication

Communication is the exchange of useful information between and among people, inside and outside the organization, to support decisions and coordinate activities. Within an organization, important information should be clearly communicated in a timely manner to management and employees who need it to help them carry out their every day jobs.

Department management provided us with adequate written support for information and communication as it relates to eMedNY. Most information pertaining to eMedNY is communicated through a website that is specifically set up to provide such information. The site offers a wide variety of information for Department staff, medical providers, and public users. This information includes provider manuals, training opportunities, current eMedNY news, and contact information.

Risk Assessment

Risks that potentially threaten the success of an organization's mission and objectives should be identified and managed; they can be both internal (e.g., human error, fraud, or system breakdowns) and external (e.g., changes in legislation or natural disasters). An organization's management should seek to prevent risks from occurring. For each risk identified, management should evaluate the likelihood of occurrence and magnitude, and decide whether to accept the risk, reduce the risk to an acceptable level, or avoid the risk. Department management provided us with adequate written support for risk assessment as it relates to eMedNY. Annually, each unit within the Department completes a risk assessment that identifies its objectives, key functions, risks associated with those functions, and activities that have been implemented to prevent those risks. In addition, the Department's 2005-2006 internal control certification documents internal control procedures that are being implemented and evaluated on a regular basis.

Control Activities

Control activities are policies, procedures and other safeguards an organization puts in place to help prevent or reduce risks that threaten the success of its objectives and mission. Management should establish control activities to aid in the efficient and effective success of the organization's objectives and mission.

Department management provided us with adequate written support for control activities over eMedNY. The Department has many policies and procedures to aid personnel in achievement of responsibilities relating to the eMedNY system. Policies and procedures include:

- Internal control summaries that describe the control activities performed by individual units to minimize risks over eMedNY functions;
- An administrative policies and procedures manual (APPM) that outlines the procedures that staff should follow for internal control reporting. The APPM outlines how the Department should:
 - Identify programmatic objectives,
 - Establish procedures for meeting objectives,
 - Institute processes that assess effectiveness of internal controls,
 - Correct internal control deficiencies.

Monitoring

Monitoring is the review of an organization's activities and/or transactions to assess its performance over time and to determine whether controls are effective. This is accomplished by putting procedures in place to monitor internal control and the success of organizational objectives.

The Department provided adequate written support for monitoring of eMedNY. Department officials use weekly reports along with several interactive databases to track changes to the eMedNY system. In addition to the weekly reports used to track systems changes, the Department provided us with a list of hundreds of performance and usage reports that are produced on a periodic basis to monitor eMedNY's performance. Also, CSC issues a monthly operations report that assesses its performance in meeting

contractual obligations and provides information on the status of ongoing projects. Department officials review these reports, and they are subject to random audit by the Department. During the implementation of eMedNY, providers, users, and CSC reported performance problems. The Department provided us with a spreadsheet that recorded problems reported and the resolution to those problems.

In addition, Department officials were contracting with a public accounting firm to perform a security review of the eMedNY system. After the completion of the security review, the Department plans to have a Statement on Auditing Standards (SAS) No. 70 audit performed of the eMedNY system. SAS 70 is an internationally recognized auditing standard developed by the American Institute of Certified Public Accountants. SAS 70 is generally applicable during an audit of the financial statements of an entity that obtains services from another organization (known as a “service organization”). A SAS 70 examination occurs when a service organization has its internal controls examined by an independent auditing firm and a formal report including the auditor’s opinion is issued.

A service organization is an entity that provides services to a user agency, and the services provided are often part of (or integrated with) the user agency’s information system(s). Frequently, the services include information technology. Service organizations can include application service providers, bank trust departments, claims processing centers, Internet data centers, or other data processing service bureaus. In the case of the eMedNY system, the Department’s service organization is CSC.

AUDIT SCOPE AND METHODOLOGY

We did our audit according to generally accepted government auditing standards. We audited the Department’s written support for internal controls over the eMedNY system for the period April 1, 2005 through July 5, 2006. Internal controls are defined as the integration of the activities, plans, attitudes, policies, and efforts of the people of an organization working together to provide reasonable assurance the organization will achieve its objectives and mission. To do our objective, we interviewed Department officials and reviewed documentation provided by Department personnel, supporting their system of internal controls over the eMedNY system.

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.

AUTHORITY

The audit was performed according to the State Comptroller’s authority under Article V, Section 1, of the State Constitution; and

Article II, Section 8, of the State Finance Law.

REPORTING REQUIREMENTS

Draft copies of this report were provided to Department of Health officials for their review and comment. Their comments were considered in preparing this report. A complete copy of the Department's response is included as Appendix A.

CONTRIBUTORS TO THE REPORT

Major contributors to this report include David R. Hancox, Brian Mason, Melissa Little, Andrew Fischler, Heather Pratt, Theresa Lawrence, Sharon Salembier and Scott Heid.

APPENDIX A - AUDITEE RESPONSE



STATE OF NEW YORK
DEPARTMENT OF HEALTH

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Antonia C. Novello, M.D., M.P.H., Dr.P.H.
Commissioner

Dennis P. Whalen
Executive Deputy Commissioner

September 18, 2006

David R. Hancox
Audit Director
Office of the State Comptroller
110 State Street
Albany, New York 12236

Dear Mr. Hancox:

The Department of Health is pleased to note that the Office of the State Comptroller's draft audit report 2006-S-40 on "Written Support of Internal Controls Over the eMedNY System" did not contain any recommendations.

Thank you for the opportunity to comment.

Sincerely,

Dennis P. Whalen
Executive Deputy Commissioner

cc: Mr. Charbonneau
Ms. Driscoll
Mr. Griffin
Mr. Howe
Ms. Napoli
Ms. O'Connor
Mr. Reed
Mr. Seward
Ms. Williams