

THOMAS P. DiNAPOLI
STATE COMPTROLLER



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ALBANY, NEW YORK 12236

STATE OF NEW YORK
OFFICE OF THE STATE COMPTROLLER

August 26, 2010

Mr. John R. Gibb
Acting Commissioner
Division of Homeland Security and
Emergency Services
1220 Washington Avenue
W.A. Harriman State Office Campus
Building 7A, Suite 710
Albany, NY 12242

Re: 2009-S-19 Division of Homeland Security and
Emergency Services
Oversight of Revenue Contracts

Dear Mr. Gibb:

According 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 audited the Division of Homeland Security and Emergency Services' (Division) monitoring of its contract revenues for the period April 1, 2006 through April 2, 2009.

A. Background

The Division oversees, directs and coordinates the State's public security resources, and develops policies, protocols and strategies to detect, respond to, and recover from terrorist acts or threats.

The Division has an agreement with the Office of General Services (OGS) for OGS to provide administrative support, including collecting and properly reporting receipt of revenue to the Office of the State Comptroller. The Division is responsible for monitoring revenue contracts, including making sure OGS collects and properly reports revenue due and received. The New York State Accounting System User Procedures Manual (Manual) requires that the receipts related to revenue contracts be reported to the State's Central Accounting System (Accounting System) on a prescribed form (AC2405). This document provides for the reporting agency to report the contract for which the revenue was received.

As of November 24, 2008, the Accounting System showed the Division had 26 active revenue contracts totaling \$3.9 million in anticipated revenues. Each of the revenue contracts is designed to allow the Division to recover costs that it had incurred. The two main types of revenue contracts at the Division are network security (4 contracts totaling \$2.4 million) and orthoimagery, the use of photography to digitally create maps of land masses (21 contracts totaling at the Division \$1.5 million). The remaining contract (\$17,340) is for encryption software.

B. Audit Scope, Objective and Methodology

The objective of our audit was to determine whether the Division effectively monitors its revenue contracts to ensure all entitled revenue is billed, collected, and promptly deposited in appropriate accounts. To accomplish our objective, we judgmentally selected a sample of 4 of the 26 revenue contracts for review. We gained an understanding of the four revenue contracts and interviewed Division personnel. We performed tests to ensure the amounts billed for the sampled contracts complied with contract terms, and traced collections to deposits and entries in the Accounting System maintained by the Office of the State Comptroller. During the audit period, April 1, 2006 and April 2, 2009, the Division billed and collected \$1.8 million for the sampled contracts.

We conducted our audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform our audits to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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. 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 functions do not affect our ability to conduct independent audits of program performance.

C. Results of Audit

We found that the sampled \$1.8 million in contract revenue was appropriately billed, collected, and promptly deposited in the correct accounts. However, OGS was not using the correct form (AC2405) to report collected revenue to the Office of the State Comptroller, and did not illustrate revenue contract numbers. Without the contract number, submitted revenue could not be associated with the contract for which it was received. As a result, the Accounting System understated the revenues received for the four revenue contracts, totaling \$1.8 million. For example, for one contract, \$1.1 million was sampled. However, the Accounting System showed no revenue was received for that contract. Further, another of the four contracts we reviewed was extended past the original termination date. However, the extension was not properly reported to the Office of the State Comptroller. As a result, the Accounting System does not reflect the revised contract amount.

When contract revenues are not reported correctly, the Accounting System will not reflect complete and accurate information. As the Accounting System data is used by decision makers and is available to the public through Open Book New York, this data must be reliable, complete and accurate. The Division must take steps to ensure OGS properly reports its revenue collections and contract extensions with sufficient detail to provide the public and decision

makers with accurate relevant information.

In response to our audit, OGS submitted journal entries to correct the accounting errors we found.

Recommendation

Assure OGS complies with the Manual by using the appropriate Accounting System forms to report contract monies received and contract extensions.

A draft copy of this report was provided to Division officials for their review and comment. Their comments were considered in preparing this final report and are included in their entirety at the end of this report. Division officials agree with our report recommendation and indicated that they plan to implement it.

Within 90 days of the final release of this report, as required by Section 170 of the Executive Law, the Commissioner of the Division of Homeland Security and Emergency Services shall report to the Governor, the State Comptroller, and the leaders of the Legislature and fiscal committees, advising them of the steps taken to implement the recommendation contained therein, and if not implemented, the reasons therefor.

Major contributors to this report include Donald Geary, Randy Partridge, Theresa Nellis-Matson, Richard Canfield, and Kathleen Garceau.

We wish to thank the Division management and staff for the courtesies and cooperation extended to our examiners during this audit.

Very truly yours,

Frank P. Patone, CPA
Audit Director



David A. Paterson
Governor

New York State
Division of Homeland Security
and Emergency Services

Office of Cyber
Security

30 South Pearl Street
Albany, NY 12207-3426

Thomas D. Smith
Director

August 6, 2010

Mr. Frank Patone
NYS Office of the State Comptroller
Division of State Government Accountability
123 William Street – 21st Floor
New York, NY 10038

Dear Mr. Patone:

On behalf of the Division of Homeland Security and Emergency Services (DHSES), we concur with the results and recommendations put forth in the draft audit report (2009-S-19). We will ensure that the OSC Report CON013B is reviewed to verify the proper recording of all revenues. Staff have been trained to ensure this is handled properly.

Thanks for the opportunity to respond. Please let me know if you have any questions in this regard.

Sincerely

A handwritten signature in cursive script that reads 'Thomas F. Duffy'.

Thomas F. Duffy
Deputy Director

cc: James Sherry
Thomas Smith
Jeff Bender