



New York State Office of the State Comptroller
Thomas P. DiNapoli

Division of State Government Accountability

Quality of Internal Control Certification

State Education Department



Report 2012-S-45

September 2012

Executive Summary

Purpose

To determine whether the State Education Department (SED) submitted timely a quality Internal Control Certification to the Division of Budget (DOB) by April 30, 2012.

Background

In 1987, the Legislature passed the New York State Governmental Accountability, Audit and Internal Control Act requiring State agencies and public authorities to each institute a comprehensive system of internal controls over their operations. DOB requires the head of each covered State agency and public authority to certify compliance with the Internal Control Act by April 30 of each year by submitting a certification and internal control summary detailing the internal control activities undertaken during the previous year. On July 20, 2012, SED submitted its annual Internal Control Certification and reported a mix of full and partial compliance with the various provisions of the Act.

Key Findings

- The Internal Control Certification was submitted almost three months late on July 20, 2012.
- Although submitted late, SED's certification exhibited the necessary quality. Answers were complete and responsive, and were supported by records and documentation maintained by the agency.

Key Recommendation

- Re-examine priorities to accommodate timely submission of the annual Internal Control Certification.

Other Related Audits/Reports of Interest

[Office for the Aging: Quality of Internal Control Certification \(2008-S-114\)](#)

[Division of Veterans Affairs: Quality of Internal Control Certification \(2008-S-115\)](#)

[Department of Transportation: Quality of Internal Control Certification \(2008-S-116\)](#)

**State of New York
Office of the State Comptroller**

Division of State Government Accountability

September 28, 2012

Dr. John B. King, Jr.
Commissioner
New York State Education Department
89 Washington Avenue
Albany, New York 12234

Dear Commissioner King:

The Office of the State Comptroller is committed to helping State agencies, public authorities and local government agencies manage government resources efficiently and effectively and, by so doing, providing accountability for tax dollars spent to support government operations. The Comptroller oversees the fiscal affairs of State agencies, public authorities and local government agencies, as well as their compliance with relevant statutes and their observance of good business practices. This fiscal oversight is accomplished, in part, through our audits, which identify opportunities for improving operations. Audits can also identify strategies for reducing costs and strengthening controls that are intended to safeguard assets.

Following is a report of our audit entitled *Quality of Internal Control Certification*. This 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.

This audit's results and recommendations are resources for you to use in effectively managing your operations and in meeting the expectations of taxpayers. If you have any questions about this report, please feel free to contact us.

Respectfully submitted,

*Office of the State Comptroller
Division of State Government Accountability*

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This report is also available on our website at: www.osc.state.ny.us

Background

Internal Controls in New York State

Internal controls are the integration of the activities, plans, attitudes, policies, and efforts of the people of an organization working together to provide reasonable assurance that the organization will achieve its objectives and mission. While the overall purpose of internal control is to help an organization achieve its mission, internal control also helps an organization to promote orderly, economical, efficient and effective operations, and produce quality products and services consistent with the organization's mission; safeguard resources against loss due to waste, abuse, mismanagement, errors and fraud; promote adherence to laws, regulations, contracts and management directives; develop and maintain reliable financial and management data, and accurately present that data in timely reports.

In 1987, the Legislature passed the New York State Governmental Accountability, Audit and Internal Control Act (Act) requiring each State agency to institute a comprehensive system of internal controls over its operations. The Division of the Budget's (DOB's) Budget Policy and Reporting Manual Bulletin B-350 requires the head of each covered agency to certify compliance with the Act by April 30 of each year by submitting a Certification and Internal Control Summary describing the internal control activities undertaken during the previous year.

The current requirements in BPRM B-350 have been updated with a list of agencies required to establish and maintain an internal audit function and also require agencies to identify specific actions taken to implement each of the recommendations in the Internal Control Task Force report *"The New York State Internal Control Act Implementation Guide: Strengthening Compliance with the Act and Standards."* The recommendations were developed to provide agencies with an improved level of assurance that an appropriate set of controls are in place and functioning properly. Recommendations directed toward agencies relate to internal control coordination, implementation, education and training, as well as to internal audit organization, staffing, processes, and continuing education.

As the State's chief fiscal officer, the Comptroller has several responsibilities under the Act, including issuing standards for internal control, providing technical assistance to agencies and conducting audits of internal controls. All of these efforts are directed toward helping public sector managers safeguard public assets and promote accountability in government. Past audits have examined a range of topics from specific control systems at individual agencies to broader statewide issues like the operation of internal audit units. This audit is one of a series that focuses specifically on the Internal Control Certification process and whether State agencies have:

- submitted their certifications on time,
- properly answered all the questions with the appropriate level of detail, and
- maintained documentation that supports the answers given.

Answers to these questions provide insight into the adequacy of not only the agencies' internal

control systems, but also their control environment and commitment to make timely, informative and reliable information available for accountability purposes.

State Education Department

The State Education Department (SED) is part of the University of the State of New York, one of the most complete, interconnected systems of educational services in the United States. Its mission is to raise the knowledge, skill, and opportunity of all the people in New York. Its vision is to provide leadership for a system that yields the best educated people in the world. SED has the following main branches, each under the direction of the Commissioner of Education: the Office of P-12 Education, the Office of Higher Education, the Office of Cultural Education, the Office of Performance Improvement and Management Services, the Chief Financial Officer, the Office of Counsel, the Office of Professions, and the Office of Adult Career and Continuing Education Services.

SED's Internal Control Officer (ICO) requires the directors of each of the various units to complete a vulnerability assessment. The responses are tabulated and a weighting system is used to score the results. The ICO prepares a report containing risk for each unit, ranked from highest risk to lowest. In addition, this summary of risk report is used in audit planning.

The ICO also prepares the Internal Control Certification, which is composed of six sections where agencies are asked to determine whether they comply fully, partially or do not comply with the provisions of the Act. On July 20, 2012, SED assessed its internal controls in the annual certification as fully compliant with four provisions of the Act. SED reported partial compliance in two areas: establishing and maintaining guidelines, and establishing and maintaining a system of internal controls and a program of internal control review.

Audit Findings and Recommendation

We determined SED's Internal Control Certification, although submitted late, exhibited the necessary quality. Answers were complete and responsive, and were supported by records and documentation maintained by the agency.

Agency Certification

While SED submitted an Internal Control Certification that exhibited the necessary quality, it was not submitted timely. SED officials stated organizational changes and staffing shortages led to the late submission.

SED responded to all of the questions in the certification and provided the requested level of detail for each of the questions.

Supporting Documentation

In each area, SED officials provided us with sufficient, appropriate documentation supporting the statements made in its Internal Control Certification.

Recommendation

1. Re-examine priorities to accommodate timely submission of the annual Internal Control Certification.

Audit Scope and Methodology

We audited the quality and timeliness of SED's 2011-2012 Internal Control Certification to determine whether SED filed the certification in accordance with DOB requirements. To accomplish our objective, we reviewed the Internal Control Certification and all documentation of internal controls that SED used to support it. In addition, we interviewed SED officials to learn more about the internal control system. Our audit addressed the quality of the Internal Control Certification, but did not assess, nor was it intended to assess, the quality of SED's internal control system. Our audit scope included the period January 1, 2011 through August 28, 2012.

We conducted our performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit 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 objective.

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.

Authority

This 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

Within 90 days after final release of this report, as required by Section 170 of the Executive Law, the Commissioner of Education shall report to the Governor, the State Comptroller, and the leaders of the Legislature and fiscal committees, advising what steps were taken to implement the recommendation contained herein, and where the recommendation has not been implemented, the reasons why.

A draft copy of this report was provided to SED officials for their review and comment. Officials agreed with the recommendation and reported taking steps to implement. A copy of their response is included at the end of this report.

Contributors to This Report

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Vision

A team of accountability experts respected for providing information that decision makers value.

Mission

To improve government operations by conducting independent audits, reviews and evaluations of New York State and New York City taxpayer financed programs.

Agency Comments



THE STATE EDUCATION DEPARTMENT / THE UNIVERSITY OF THE STATE OF NEW YORK / ALBANY, NY 12234

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September 26, 2012

Mr. John Buyce
Audit Director
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110 State Street, 11th Floor
Albany, NY 12236

Dear Mr. Buyce:

The following is the New York State Education Department's (Department) response to the draft audit report (2012-S-45) of the Department's Quality of Internal Control Certification.

Recommendation 1:

Re-examine priorities to accommodate timely submission of the Internal Control Certification.

The Internal Control Officer will work to ensure that the submission of the Internal Control Certification is completed in a timely manner.

If you have any questions regarding this response, please contact Mary Drzonsc, Internal Control Officer, at (518) 474-5837.

Sincerely,

Valerie Grey

c: Mary Drzonsc
Sharon Cates-Williams
James Conway