
**Thomas P. DiNapoli
COMPTROLLER**



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**OFFICE OF THE
NEW YORK STATE COMPTROLLER**

**DIVISION OF STATE
GOVERNMENT ACCOUNTABILITY**

**DIVISION OF VETERANS
AFFAIRS**

**QUALITY OF INTERNAL
CONTROL CERTIFICATION**

Report 2008-S-115

AUDIT OBJECTIVE

Our objective was to determine whether the Division of Veterans Affairs (DVA) submitted a quality internal control certification to the Division of Budget on April 30, 2008.

AUDIT RESULTS - SUMMARY

The Division of the Budget (DOB) requires agencies to certify compliance with the State's Internal Control Act annually by submitting an internal control certification, which includes both an internal control summary report as well as a signed certification to attest that they met required internal control provisions.

We determined the DVA did not submit an internal control certification to DOB by April 30, 2008. On June 30, 2008, after the commencement of our audit, DVA submitted to DOB and the auditors its internal control summary report. However, they did not submit the signed certification to attest that they met required internal control provisions at this time. Instead, at the audit closing conference on August 14, 2008, DVA officials provided us with a copy of the signed certification and informed us that they would be submitting it to DOB as well.

Our audit report contains three recommendations to improve the quality of the Division of Veteran's Affairs internal control certification. DVA officials agree with our recommendations and indicate steps they plan to take to implement them.

This report, dated November 6, 2008, is available on our website at: <http://www.ocs.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 Government Accountability
110 State Street, 11th Floor
Albany, NY 12236

BACKGROUND

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.

The Division of Budget's Budget Policy and Reporting Manual (BPRM) Bulletins B-350 and B-1177 require the head of each covered State agency and public authority to certify compliance with the State's Internal Control Act (the Act) by April 30 of each year by submitting a Certification and Internal Control Summary of the internal control activities undertaken during the previous year. The current requirements in the BPRM B-350 internal control certification has been updated with a list of agencies required to establish and maintain an internal audit function and also requires agencies 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.”* These recommendations include specific guidance for agencies, the Internal Control Task Force, NYS Division of Budget and the NYS Comptroller’s Office. The recommendations were developed to provide agencies with an improved level of assurance that an appropriate set of controls are in place within the agency and are functioning properly. Recommendations directed toward agencies relate to internal control coordination, implementation, education and training as well as internal audit organization, staffing, processes, and continuing education.

The New York State Division of Veterans’ Affairs (DVA) was created in 1945 as part of the Executive Department to assist veterans, members of the armed forces, their families, and their dependents in securing benefits earned through military service. Its mission is to provide quality service and advocacy for New York State Veterans, armed forces members, their dependants and survivors, ensuring they receive benefits granted by law for their service to New York and the Nation.

The DVA, a relatively small agency with a workforce of 112 in 2007-08, is hosted by the Office of General Services (OGS). As part of the hosting agreement, OGS performs certain financial (i.e. purchasing) and human resource functions.

AUDIT FINDINGS AND RECOMMENDATIONS

Quality of Internal Control Certification

The Division of Budget (DOB) requires agencies to certify compliance with the State’s Internal Control Act annually by

submitting an internal control certification, which includes both an internal control summary report as well as a signed certification to attest that they met required internal control provisions.

The DVA did not submit an internal control certification to DOB by April 30, 2008. The former Internal Control Officer (ICO) retired in 2006 and for DVA’s 2006-07 certification due March 31, 2007, prior administration staff copied and pasted the 2005-06 certification and asked an individual not involved with the process to submit it to DOB. In November 2007, a new Director was appointed and has begun to emphasize the importance of internal controls and the certification process. The new Director appointed an ICO (same individual that was asked to submit the certification last year) in April 2008 just prior to the certification due date to DOB on April 30th. The newly appointed ICO also serves as DVA’s Deputy Director of Administration.

The new ICO was unsure as to how to answer the questions outlined in the internal control summary report because many of the DVA’s purchasing and human resource functions are maintained by OGS, its host agency. After our audit announcement and a general explanation of what to include, the newly appointed ICO filled out the internal control summary report and provided it to DOB and the auditors on June 30, 2008. On August 14, 2008, DVA officials informed us that they would submit its 2007-08 certification to DOB and provided us with a signed copy of the certification dated July 23, 2008.

In addition, we found that currently the DVA has not yet established a program for internal control review. Specifically, DVA has not: identified and clearly documented the Division’s assessable units and major functions within those units; has not defined the objectives of the assessable units’ major

functions; has not developed a process, or cycle, to assess risk and test controls of the major functions; has not tested controls to ensure they are operating properly and has not instituted a central process to document, monitor and report control deficiencies and corrective actions.

Having a quality internal control certification is essential and gives reasonable assurance of a complete system of internal controls allows an agency to achieve its organizational objectives and mission.

Certification

We reviewed the internal control summary to see if they followed the certification instructions outlined in the Budget Policy and Reporting Manual Item B-350, and followed the internal control requirements outlined in the NYS Internal Control Act Implementation Guide and the Internal Control Task Force Recommendations in the Standards for Internal Control in New York State Government which are the basis for the certification. In addition, we determined a quality certification should show evidence an agency responded to all the questions, provided explanation and detail when required, and answered the questions accurately. We also reviewed supporting documentation of the certification provided by the DVA to determine if the information reported was accurate.

The internal control summary report asks agencies to respond to a series of questions regarding the agency's internal control system and also requests information on the specific actions taken by the agency to implement the recommendations made by the Internal Control Task Force. Most of the questions require the agency to provide detailed responses. Although the DVA responded to each question on the internal control

summary, the answers provided generally did not adequately answer the questions. For example, one question related to the agency's internal control review process stated:

Describe the review process used by the agency during 2007-2008 to assure that internal controls were evaluated regularly.

DVA's responded: Upon the arrival of the new State Director on Veterans Day 2007 we have undertaken the following:

- a. Regionalizing purchase cards
- b. Implementing time keeping system (LATS)
- c. Separation of duties
- d. Monthly budget reviews with host agency (OGS)
- e. Tightening controls on travel vouchers

This response does not describe an internal control review process, but outlines some organizational objectives that DVA achieved during the year. A process to review internal controls should include: the identification of assessable units and major functions; develop a cycle to address risk; test internal controls to ensure they are working properly and develop a process to monitor corrective actions.

In another example, in the section in the internal control summary titled "Coordination and Implementation", there are eight recommendations listed that address the following: management communication of internal controls to agency staff, agency risk assessments and corrective actions and maintenance of internal control documentation. DVA responded to six of the eight recommendations by stating "Under Development." Specifically, one of the recommendations addressing risk assessments stated:

Internal control programs should establish a process for identifying improvement areas, corresponding corrective actions, and implementation of all corrective actions.

DVA responded to this recommendation: Under development.

DVA should have described what they had done in 2007-08 to address the recommendation. By responding ‘under development’, DOB officials are unaware of specific actions taken and have no reasonable assurance that DVA is working on complying with the recommendations set forth by the Internal Control Task Force.

Establishing and maintaining a system of internal control and internal control review program allows agencies to communicate to its employees programmatic and management’s objectives and provides methods used to assess the effectiveness of its internal controls in supporting those objectives. A program of internal control review allows agencies to identify internal control weaknesses, identify actions that are needed to correct these weaknesses, monitor the implementation of necessary corrective actions and periodically assess the adequacy of agency’s internal controls.

Recommendations

1. Executive management and the ICO should obtain a full understanding of internal control requirements, specifically DOB Budget Bulletin B-350 and the Standards of Internal Control in NYS Government.
2. Using available references, such as DOB budget bulletin B-350 and the Standards of Internal Control in New York State Government, establish a

system of internal control and internal control review tailored to the agency’s core mission.

3. Submit a quality internal control certification timely to the Division of Budget each year.

AUDIT SCOPE AND METHODOLOGY

We conducted our performance audit in accordance with generally accepted government auditing standards. We audited the quality of the Division of Veterans Affairs (DVA) 2007-08 B-350 Internal Control Certification. To do our audit we interviewed agency officials to learn about their control activities and reviewed all documentation of internal controls provided by DVA to support their certification.

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 who 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 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.

REPORTING REQUIREMENTS

Draft copies of this report were provided to DVA officials for their review and comment. Their comments were considered in preparing this final report and are included as Appendix A.

Within 90 days of the final release of this report, as required by Section 170 of the Executive Law, the Director of the Division of Veterans Affairs 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 recommendations contained herein, and where recommendations were not implemented, the reasons therefor.

CONTRIBUTORS TO THE REPORT

Major contributors to this report include David R. Hancox, Walter Irving, Melissa Little, Scott Heid, Mark Radley and Andrew Davis.

APPENDIX A - AUDITEE RESPONSE



STATE OF NEW YORK
EXECUTIVE DEPARTMENT
DIVISION OF VETERANS' AFFAIRS

David Paterson
Governor

James D. McDonough, Jr.
Director

September 25, 2008

Mr. David R. Hancox
Audit Director
Office of the State Comptroller
Division of State Government Accountability
110 State Street, 11th Floor
Albany, NY 12236

Dear Mr. Hancox:

This letter is in response to the draft audit report for the New York State Division of Veterans' Affairs (DVA) on the Quality of Internal Control Certification – Report 2008-S-96. The Division has made a commitment to raise the level of awareness and compliance with the Intern Control Act of 1987.

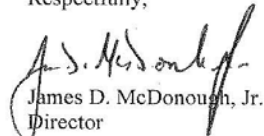
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Comment

The following represents the Division's response to the audit recommendations:

1. Executive Management and the Internal Control Officer for the Division of Veterans' Affairs will attend Internal Control meetings and training opportunities in order to obtain a full understanding of internal control requirements.
2. In addition to training, the Division's Internal Control Officer will meet with other "like" agency's Internal Control Officers in order to establish a system of Internal Control and Internal Control Review which will not only enhance the Division's core mission but will also enable us to review all agency activities form Counseling (core mission) to budgetary issues as well.
3. The Division will submit a quality Internal Control Certification timely to the Division of Budge each year, meeting the requirements of Division of Budget Bulletin B-350.

If you require any further information, please contact Michelle LaRock, Deputy Director, Administration and Budget at 474-6114.

Respectfully,


James D. McDonough, Jr.
Director

cc: Tom Lukacs, Division of Budget

* State Comptroller's Comment: This is the Division of Veteran's Affairs response to the draft audit report on Quality of Internal Controls - Report 2008-S-115. The report number is not 2008-S-96 as noted.