



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

Division of State Government Accountability

Quality of Internal Control Certification

Division of Housing and Community Renewal



Report 2012-S-31

October 2012

Executive Summary

Purpose

To determine whether the Division of Housing and Community Renewal (DHCR) submitted timely a quality internal control certification to the Division of Budget (DOB) by April 30, 2011.

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 April 26, 2011, DHCR submitted its annual Internal Control Certification and reported full compliance with all provisions of the Act.

Key Findings

- DHCR's internal control certification was submitted timely. However, we identified several areas where the quality of the certification and/or the actual internal control program could be improved.
- In two instances, DHCR's certification did not provide the required level of detail to explain the actual steps taken to implement certain provisions, including how the Comptroller's Standards for Internal Controls have been integrated into its internal program and how specific risks and corrective actions plans were being monitored.
- Although DHCR described compliance testing programs and monitoring systems for corrective actions, evidence did not show that these systems were actually in place.
- Although DHCR certified full compliance with all provisions of the Act, it does not have a formal internal control training program, but instead relies on informal discussions that typically occur during staff meetings. DHCR has also assigned the same person to function as both Internal Audit Director and Internal Control Officer. These duties are not compatible and impair the individual's ability to perform the audit function with the necessary degree of independence.

Key Recommendations

- Provide more detailed responses to questions when required in the annual Internal Control Certification.
- Ensure that compliance testing and monitoring systems are in place. When necessary, ensure corrective action is taken and monitored.
- Establish a more formal internal control training program covering all staff.
- Separate the duties associated with the internal control and internal audit functions.

Other Related Audits/Reports of Interest

[Office for the Prevention of Domestic Violence: Quality of Internal Control Certification \(2012-S-41\)](#)

[Office of the Medicaid Inspector General: Quality of Internal Control Certification \(2012-S-46\)](#)

[Department of State: Quality of Internal Control Certification \(2012-S-50\)](#)

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

Division of State Government Accountability

October 29, 2012

Mr. Darryl C. Towns
Commissioner
New York State Homes and Community Renewal
Hampton Plaza
38-40 State Street
Albany, New York 12237

Dear Commissioner Towns,

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.

Division of Housing and Community Renewal

Division of Housing and Community Renewal (DHCR) is responsible for the supervision, maintenance and development of affordable low- and moderate-income housing in New York State. DHCR is a component of New York State Homes and Community Renewal (HCR), which also encompasses the State's other major housing and community renewal entities: the Affordable Housing Corporation, Housing Finance Agency, State of New York Mortgage Agency, and Housing Trust Fund Corporation. DHCR's mission is to make New York State a better place to live, by supporting community efforts to preserve and expand affordable housing, home ownership and economic opportunities and providing equal access to safe, decent and affordable housing.

DHCR's Internal Control Officer (ICO), who is also the Internal Audit Director, requires the directors of each of the various units within DHCR 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, from highest risk to lowest. In addition, he makes a self-reporting Internal Control Review Form available on the agency's intranet for DHCR managers. This allows them to test areas within their units for possible corrective action.

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 April 26, 2011, DHCR assessed its internal controls in the annual certification as fully compliant with all provisions of the Act.

Audit Findings and Recommendations

DHCR's Internal Control Certification was submitted timely (April 26, 2011) and generally exhibited the necessary quality. However, in two cases we found sufficient detail was not provided when answering the questions. In addition, although DHCR certified full compliance where the certification asked for a description of its compliance testing and monitoring systems, we found no evidence that the systems described were actually in place. We also noted issues related to DHCR's organizational structure and training programs which could impact its reported level of compliance.

Agency Certification

While DHCR responded to all the questions in the Internal Control Certification, for two questions the agency did not provide sufficient detail. For example, rather than describing the efforts management took to coordinate and integrate the documentation and reporting of its internal control activities, DHCR's certification simply stated that OSC's Standards for Internal Controls were integrated. In the second instance, when asked to describe the agency's process for reviewing and testing controls and for monitoring corrective actions, DHCR responded only that it performed a risk assessment and put corrective actions in place.

Supporting Documentation

We also noted one area where DHCR's certification was inaccurate. For the certification question asking about efforts to establish and maintain a system of internal controls and a program of review, DHCR certified these provisions as fully compliant and indicated that the Internal Control Officer had a program in place to test and monitor risk assessments prepared by the operating units, along with corrective actions that had been put in place to correct deficiencies and instances of noncompliance. However, DHCR did not provide any evidence that these systems were actually in place. While DHCR did provide evidence of self-testing that occurs within specific areas as part of its risk assessment process, it does not maintain a system to test and monitor these assessments. Management of each unit tests their own area for compliance; however, these tests are not monitored in a central location for enterprise-wide risk assessment, nor is there evidence corrective actions have been taken. Further, although DHCR did maintain a database of audit and review results, there was no evidence that any new controls had been put in place or that corrective actions had occurred.

Other Issues Potentially Impacting Compliance

As part of our examination, we also noted the following issues that call into question the degree of DHCR's compliance with specific provisions of the Act. DHCR reported full compliance with the requirement to implement education and training efforts to ensure that officers and employees have achieved adequate awareness and understanding of internal control standards. However, we found internal control principles are not disseminated to the staff through organized methods

such as training, intranet postings or informational meetings. DHCR officials stated most of their training is verbal and informal, typically occurring during staff meetings.

In addition, DHCR reported full compliance with the requirement to designate an Internal Control Officer, who shall report to the head of the agency to implement and review the internal control responsibilities. However, we found DHCR has the same individual functioning as both the Internal Audit Director and the Internal Control Officer. The Internal Control Task Force report specifically rejects this practice, concluding that the roles are incompatible and serve to impair the ability of the individual to fulfill their audit responsibilities with the required level of independence.

Recommendations

1. Provide more detailed responses to questions when required in the annual Internal Control Certification.
2. Ensure that compliance testing and monitoring systems are in place. When necessary, ensure corrective action is taken and monitored.
3. Establish a more formal internal control training program covering all staff.
4. Separate the duties associated with the internal control and internal audit functions.

Audit Scope and Methodology

We audited the quality and timeliness of DHCR's 2010-2011 Internal Control Certification to determine whether DHCR 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 DHCR used to support it. In addition, we interviewed DHCR 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 DHCR's internal control system. Our audit scope included the period January 1, 2010 through July 10, 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

We provided a draft copy of this report to DHCR officials for their review and comment. Officials agreed with the recommendations and reported taking steps to implement them. A copy of their response is included at the end of this report.

Within 90 days after final release of this report, as required by Section 170 of the Executive Law, the Commissioner of New York State Homes and Community Renewal 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 why.

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



ANDREW M. CUOMO
GOVERNOR

DARRYL C. TOWNS
COMMISSIONER/CEO

October 5, 2012

Mr. John F. Buyce, CPA
Audit Director
Office of the State Comptroller
Division of State Government Accountability
110 State Street, 11th Floor
Albany, New York 12236

Dear Mr. Buyce:

Thank you for the opportunity to review draft report 2012-S-31 Quality of the Internal Control Certification for 2011. We are in agreement with all of the recommendations contained in the report and offer our detailed responses below.

Very truly yours,

A handwritten signature in black ink, appearing to read "D.C. Towns".

Darryl C. Towns
Commissioner/CEO

cc: Michael Skrebutenas
Forrest Taylor
Sharon Devine
Gary Connor
Tom Lukacs, Division of the Budget

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nyshr.org

**NYS Division of Housing and Community Renewal
Response to Draft Audit Report – 2012-S-31**

Recommendations

1. *Provide more detailed responses to questions when required in the annual Internal Control Certification.*

Response: Specific detail will be provided on all questions where necessary. Detail will include listing all steps regarding reviews, follow-up, surveys, corrective actions taken and all other efforts necessary to bring the certification into full compliance.

2. *Ensure that compliance testing and monitoring systems are in place. When necessary, ensure corrective action is taken and monitored.*

Response: As part of DHCR's ongoing Internal Control Assessment, we will work with managers to identify and update risks in their program areas. Using sources such as, but not limited to, the *Manager's Guide to Testing Compliance with Internal Control Requirements*, and the *New York State Internal Control Act Implementation Guide*, we will revise our methodology for evaluating and testing controls to identify problem areas. Methodology will include identifying high risk transactions; testing of key controls; and assessing test results and retaining relevant documentation. We will continue to review and revise annual vulnerability/risk assessment surveys and internal control review forms submitted by managers, as a means to monitor procedural changes in the program areas. For those areas where internal control weaknesses have been identified and corrective action is needed; a new follow-up system to ensure compliance will be in place.

3. *Establish a more formal internal control training program covering all staff.*

Response: With the assistance of the agency's Training Unit an online Internal Control training course will be developed. This course will be mandatory for all agency employees and will be tracked to determine which employees have not completed the course. A newsletter type memo regarding the importance of Internal Controls will be established and posted on the agency's intranet page on a quarterly basis or as deemed necessary, for all employees to read. We will continue to emphasize the importance of internal controls through our ongoing Internal Control Assessment.

4. *Separate the duties associated with the internal control and internal audit functions.*

Response: Executive management is presently considering and evaluating several staffing options to separate the internal control officer duties while maintaining adequate internal audit coverage and independence. A decision is expected in time to be included in our 90-day implementation response, as required under Section 170 of the executive law.