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

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Division of State Government Accountability

# Quality of Internal Control Certification

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## Department of State

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# Executive Summary

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## Purpose

To determine whether the Department of State (DOS) 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 April 30, 2012, DOS submitted its annual Internal Control Certification and reported full compliance with all provisions of the Act.

## Key Findings

- DOS' Internal Control Certification was submitted timely and exhibited the necessary quality.
- We noted one issue related to DOS' implementation of education and training efforts which could impact its reported level of compliance. Although DOS certified full compliance with all provisions of the Act, it last provided internal control training to all staff in 2009-10.

## Key Recommendations

- Establish on-going internal control training that encompasses all staff.

## 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

Mr. Cesar A. Perales  
Secretary of State  
Department of State  
One Commerce Plaza, 99 Washington Avenue  
Albany, NY 12231-0001

Dear Mr. Perales:

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](http://www.osc.state.ny.us)

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# Background

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## 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.

## **Department of State**

Established in 1778, the Department of State (DOS) improves the quality of life for all New Yorkers by providing a myriad of essential services and programs to local governments, businesses, community organizations and citizens. In partnership with local leaders, DOS helps municipalities reduce costs and improve services that support local economies. It manages more than \$100 million in local assistance grants and provides expert guidance and training to help hundreds of communities create more efficient, vibrant, and healthier places to live and work. In its efforts to ensure the health and life safety of all residents, DOS oversees the enforcement practices of local governments in matters pertaining to building construction and energy conservation. It also promotes business growth and oversees the licensing of 29 professional occupations from hair stylists to real estate brokers. DOS also handles corporate filings, and regulates the State's not-for-profit cemeteries.

There are six sections of the Internal Control Certification where agencies are asked to determine whether they comply with the provisions of the Act. On April 30, 2012, DOS assessed its internal controls in the annual certification as fully compliant with all provisions of the Act.

## Audit Findings and Recommendation

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DOS' Internal Control Certification was submitted timely (April 30, 2012) and exhibited the necessary quality. Answers to the questions were complete and responsive, and were supported by records and documentation maintained by the agency. However, we noted an issue related to DOS' training program which could impact its reported level of compliance.

### Agency Certification

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

### Supporting Documentation

In each area, DOS officials provided us with sufficient, appropriate documentation supporting the statements made in its certification.

### Other Issues Potentially Impacting Compliance

As part of our examination, we also noted the following issue that calls into question the degree of DOS' compliance with the specific provisions of the Act. DOS 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, DOS states in the Internal Control Certification that all employees were required to complete an on-line internal control training module in 2009-10, although it continues to look for other viable training options. Thus, DOS has not provided on-going internal control training for all staff.

### Recommendation

1. Establish on-going internal control training that encompasses all staff.

## Audit Scope and Methodology

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We audited the quality of DOS' 2011-2012 Internal Control Certification to determine whether DOS filed the certification in accordance with DOB's BPRM Bulletin B-350. To accomplish our audit objective, we reviewed the Internal Control Certification and all documentation of internal controls that DOS used to support it. In addition, we interviewed DOS officials to learn more about the internal control system. Our audit addressed the quality of the Internal Control Certification, but it did not assess, nor was it intended to assess, the quality of DOS's internal control system. Our audit scope included the period January 1, 2011 through August 30, 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

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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

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A draft copy of this report was provided to DOS officials for their review and comment. Officials agreed with our recommendation and reported they are exploring steps to improve training. We considered their comments in preparing this report, and have included them 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 Secretary of State for the Department of State 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 if the recommendation was not implemented, the reasons why.



## Contributors to This Report

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## Division of State Government Accountability

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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



STATE OF NEW YORK  
DEPARTMENT OF STATE

ANDREW M. CUOMO  
GOVERNOR

CESAR A. PERALES  
SECRETARY OF STATE

September 27, 2012

Mr. John F. Buyce  
Audit Director  
Division of State Government Accountability  
Office of the State Comptroller  
110 State Street  
Albany, NY 12236

RE: Report 2012-S-50

Dear Mr. Buyce:

This is in response to the Office of the State Comptroller's report (2012-S-50) as required by Section 170 of the Executive law. The audit examined the Department of State's (Department) Internal Control Certification process. Specifically, the audit's focus was on whether the certification was submitted on time, properly answered all the questions with the appropriate level of detail, and maintained documentation that supported the answers given.

We are pleased you found the Department's submission timely and that it "exhibited the necessary quality." We continually work to improve our processes and welcome your recommendations toward that effort.

Our response to the recommendation made in your report follows below:

Recommendation #1

*Establish on-going internal control training that encompasses all staff.*

Agree. We have been exploring options for providing agency-wide training and have specifically pursued opportunities through the Statewide Learning Management System (SLMS). However, technical difficulties which limit some users' ability to complete the training in multiple sessions made it unacceptable to require completion agency-wide. Our agency liaison has been working with SLMS to remedy this problem. Once resolved, we plan to launch the training to all managers and staff.

Sincerely,

  
Daniel E. Shapiro  
First Deputy Secretary of State

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