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Return fax number: (518) 427-4499

Date: January 12, 1999  
No. of pages: 5

(incl. this page)

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Message:

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**New York State Department of Law****Summary of Findings****Budget and Fiscal Management - Albany****PRELIMINARY DRAFT  
FOR DISCUSSION PURPOSES ONLY****Segregation of Duties over Cash Receipts**

*Statement of Condition:* The clerk receiving incoming checks determines which bank account the checks belong to and applies the appropriate restrictive endorsement to the checks. This person also logs the incoming checks into a spreadsheet and prepares the deposit. This same clerk has custody of the check stock, as well as the authorized signature. Finally, this individual has the authority to request a withdrawal of funds from the Short Term Investment Pool.

*Criteria:* There should be segregation of duties between custody, authorization and recordkeeping of cash.

*(Potential) Effect:* This could result in misappropriation of assets.

*Cause:* Inadequate staffing.

*Recommendation:* We recommend that the functions of applying the restrictive endorsement and custody of the authorized signature card be assigned to two separate individuals.

**Receiving Reports not dated or signed**

*Statement of Condition:* There were two receiving reports that were not signed or dated.

*Criteria:* The receiving reports should be signed and dated to show evidence of the date the goods/services were received.

*(Potential) Effect:* This may cause difficulty in determining whether or not goods were received and by whom.

*Cause:* Not determinable

*Recommendation:* We recommend that the receiving reports be dated and signed.

**Late Payment of Invoices**

*Statement of Condition:* All invoices are not being paid by OSC in accordance with the State's policy of payment within 30 days of MIR date (Merchandise/Invoice/Receive date).

*Criteria:* The Bureau is subject to the New York State prompt payment law which mandates that all invoices are to be paid within 30 days.

*(Potential) Effect:* The Bureau will incur interest charges on past due invoices by the vendor.

*Cause:* Not determinable

*Recommendation:* We recommend that all payments be made within 30 days to be in compliance with New York State law.

**PRELIMINARY DRAFT  
FOR DISCUSSION PURPOSES ONLY****Deposit Slip Verification**

*Statement of Condition:* Deposit slips received by the Office of Budget and Fiscal Management from Civil Recoveries are not initialed when verified.

*Criteria:* There should be evidence that the clerks from the Office of Budget and Fiscal Management have verified the deposit slip totals.

*(Potential) Effect:* Deposit slips may be overlooked and not adequately verified.

*Cause:* Not determinable

*Recommendation:* We recommend that the clerks from the Office of Budget and Fiscal Management initial the deposit slip after the verification has been performed in order to ensure that the process is being done and to prevent deposits from being overlooked.

**Human Resources - Albany****Review of Changes to PACER System**

*Statement of Condition:* The PACER system does not generate a report showing the changes made to the system since the previous payroll period.

*Criteria:* The changes made to the PACER system should be monitored to ensure that accurate employee standing data are being processed.

*(Potential) Effect:* Inaccurate and/or incomplete employee data may be entered into the system, resulting in improper processing of payroll data.

*Cause:* PACER system does not generate such a report.

*Recommendation:* We recommend that the Office of the Attorney General work with the Pacer administrator to generate a report that will show changes made to certain significant fields (i.e. salary, deductions) and additions and deletions from the report. Although the Office of the State Comptroller monitors significant changes such as new hires and salary adjustments, we feel it would be beneficial to the Bureau to monitor other changes.

**Civil Recoveries - Albany****Post Dated Checks**

*Statement of Condition:* The Civil Recoveries Bureau accepts post-dated checks.

*Criteria:* The Civil Recoveries Bureau should not accept post-dated checks.

*(Potential) Effect:* Acceptance of post dated checks results in additional monitoring by the Bureau to ensure that the checks are deposited on the appropriate dates. In addition, this could result in weaker collections, due to the risk that the debtor does not have adequate funds to cover the check in the future.

*Cause:* The Bureau's current policy is to allow the acceptance of post-dated checks.

*Recommendation:* We recommend that the Bureau not accept post-dated checks to increase the effectiveness and efficiency of collections.

**PRELIMINARY DRAFT  
FOR DISCUSSION PURPOSES ONLY**

### Safe Log

*Statement of Condition:* The Civil Recoveries Bureau keeps checks in its safe overnight. These checks include post dated checks and checks that they are unsure where to apply. There is currently no log to indicate what is included in the safe overnight.

*Criteria:* The Civil Recoveries Bureau should maintain a log of items included in the safe.

*(Potential) Effect:* Could result in misappropriation of assets

*Cause:* Not determinable.

*Recommendation:* We recommend that the Bureau maintain a log of items left in the safe overnight.

## **Administrative Operations and Services Management - Albany**

### Fixed Asset Inventory Updates

*Statement of Condition:* The active inventory log is not updated in a timely manner. Legal technology is shipping items out of the warehouse without notifying the supervisor of Administrative Operations and Services Management (AOSM). Therefore, the active inventory log that the supervisor maintains, does not contain current information.

*Criteria:* The active inventory log should contain up to date information on the status of each active inventory item.

*(Potential) Effect:* The active inventory items are difficult to locate and track.

*Cause:* Lack of communication between Legal Technology and AOSM

*Recommendation:* We recommend that legal Technology inform AOSM immediately of any updates regarding active inventory.

## **Investor Protection and Securities – New York City**

### Review of Complaints

*Statement of Condition:* Customer complaints received by the Investor Protection and Securities Bureau are reviewed by the Bureau chief, but this review is not evidenced.

*Criteria:* There should be evidence that the Bureau Chief has reviewed the customer complaint.

*(Potential) Effect:* Customer complaints may be overlooked and not adequately resolved.

*Cause:* Not determinable

*Recommendation:* We recommend that the Bureau Chief initial the customer complaint after the review has been performed in order to ensure that the process is being done and to prevent complaints from being overlooked.

**PRELIMINARY DRAFT  
FOR DISCUSSION PURPOSES ONLY**

## Charities – New York City

### Delinquency Letters

*Statement of Condition:* Currently the computer system used by the Charities Bureau cannot automatically generate delinquency letters, when the required documents have not been received by the deadline.

*Criteria:* This process should be automated.

*(Potential) Effect:* Since there are more than 35,000 files, this task can not be efficiently accomplished without adequate software support.

*Cause:* When the system was installed this feature was taken away.

*Recommendation:* We recommend that the Bureau discuss with its software technicians the possibility of creating this functionality.

**DRAFT**

August 11, 1999

PricewaterhouseCoopers LLP  
80 State Street  
Albany, New York 12207

Dear Sirs:

In connection with your examination of management's assertion dated November 13, 1998 that, except for the material weakness described in the fifth paragraph of this letter, the New York State Department of Law's (Office of the Attorney General - "OAG") internal accounting and administrative controls maintained during the period April 1, 1998 through November 13, 1998, are adequate to meet the criteria established by the State of New York, as set forth in the "New York State Governmental Accountability, Audit and Internal Control Act of 1987" and the significant objectives and relevant internal accounting and administrative controls described in the Appendix to this letter, we confirm, to the best of our knowledge and belief, the following representations made to you during your examination.

The OAG is responsible for establishing and maintaining internal controls consisting of a system of internal accounting and administrative controls, the objectives of which are to provide management with reasonable, but not absolute assurance that assets are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and are recorded properly.

The OAG has evaluated the effectiveness of its internal accounting and administrative controls in effect during the period April 1, 1998 through November 13, 1998 in relation to criteria for effective internal control as set forth in the "New York State Governmental Accountability, Audit and Internal Control Act of 1987" and the significant objectives and relevant internal accounting and administrative controls described in the Appendix to this letter. Based on this evaluation, the OAG believes that, for the period April 1, 1998 through November 13, 1998, its internal accounting and administrative controls in effect meet the criteria.

The OAG has made available to you all the financial and administrative records and related data relevant to the attached Appendix.

**DRAFT**

We have no deficiencies in the design or operation of the internal controls which could adversely affect the OAG's ability to record, process, summarize and report data.

To the best of our knowledge, there have been no:

- ♦ Irregularities involving management or employees who have significant roles in the OAG's internal accounting and administrative controls;
- ♦ Irregularities involving other employees that could have a material or significant effect on the OAG's internal accounting and administrative controls;
- ♦ Communications from regulatory agencies concerning non-compliance with, or deficiencies in, financial reporting practices or other matters that could have a material or significant effect on the OAG's internal accounting and administrative controls;
- ♦ Material weaknesses in the OAG's internal accounting and administrative controls, except that cash and related accounting records may not be appropriately safeguarded due to inadequate segregation of duties between the cash receipts (Significant Objective: Process cash receipts from bureaus) and disbursement functions (Significant Objective: Uphold fiduciary responsibility over funds held for claimants of defrauders).

To the best of our knowledge, there have been no changes in the OAG's internal controls including internal accounting and administrative controls, as well as corrective actions taken by management, and no events have occurred subsequent to November 13, 1998 that might significantly affect the OAG's internal accounting and administrative controls.

It is the understanding of the OAG that your examination was made in accordance with standards established by the American Institute of Certified Public Accountants, *Government Auditing Standards* issued by the Comptroller General of the United States and as required by the "New York State Governmental Accountability, Audit and Internal Control Act of 1987". Therefore, your study was designed primarily for the purpose of reporting on management's assertion that the OAG's internal accounting and administrative controls maintained during the period April 1, 1998 through November 13, 1998, are adequate to meet the criteria established by the State of New York, as set forth in the "New York State Governmental Accountability, Audit and Internal Control Act of 1987" and the significant objectives and relevant internal accounting and administrative controls described in the Appendix to this letter and that your tests of the accounting and administrative records and other procedures were limited to those which you considered necessary for that purpose.

Sincerely,

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Dennis C. Vacco  
New York State Attorney General

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Daniel J. Dustin  
Internal Audit Officer and Chief Accountant

*full*

STATE OF NEW YORK  
OFFICE OF THE ATTORNEY GENERAL

MEMORANDUM

**TO:** Caitlin Halligan  
Martin Mack  
Peter Pope  
Richard Rifkin  
Dieter Snell

**FROM:** Richard E. Warnke

**DATE:** November 15, 2001

**SUBJECT:** Internal Audit Plan *4/1/2001*  
*1/31/2002*

As a publicly elected official, the Attorney General is required by law to secure the services of an outside auditor to conduct an independent internal audit of the Office of the Attorney General every three years. The firm of Price Waterhouse Coopers has been hired to perform this audit which is scheduled to begin the end of this month.

The auditors will perform the audit by "testing" the control measures we have established to protect confidential information, and financial and physical assets of the OAG. The auditors will review our records to ascertain if proper written approvals are present and will question staff regarding procedures to determine if all required steps have been taken. The basis of these tests will be the controls listed on the attached document.

The attached pages contain a list of the various Significant Objectives of the OAG, the Relevant Controls we have in place, and the Financial and/or Administrative Significance of the objectives. The list is divided by program and bureau. This list was originally developed by the previous administration for the Internal Control Audit performed in 1998. Each Program Head and Bureau Chief should closely review the controls listed for his or her bureau to assure that the list reflects the actual operating procedures of the bureau, with attention to the general practice of the office and appropriate level of review. Also, please verify that the reference to law is correct. Changes or additions should be brief and general in description of the control process.

The review should be completed by Friday, November 23. Please direct your questions to myself, or Sylvia Hamer at 518-473-7900, or Jean Woodard at 518-474-8146. Your cooperation in this effort is greatly appreciated.

cc:	Rich Baum	Kermitt Brooks	Terryl Brown
	Sylvia Hamer	Michele Hirshman	Francine James
	Patricia Martinelli	David Nocenti	Chris Prather
	Dan Smirlock	Chris Walsh	Sue Watson



**Internal Control Matrix by Bureau**

Division / Bureau	Significant Objectives	Relevant Controls	Financial Significance	Administrative Significance
<b>ADMINISTRATION</b>  <b>Assistant Deputy's Office</b> <b>Sylvia Hamer</b>	Log and process public requests for copies of information and records.	Confidential and personal information withheld or deleted.		Freedom of information Law (FOIL). Act. 6 Public Officers Law.
<b>Administrative Operations and Services Management (Albany)</b>  <b>George Owad</b>	Fixed asset and equipment Inventory.	Responsible for distribution of pre-numbered decals applied to all significant purchases.  Maintain computerized list of equipment by decal number and location.  Conduct periodic physical inventory of all fixed assets.  Control the distribution of supplies statewide (except NYC)	Approximately \$0.5 million in non-computer equipment purchased in 2000 - 01.	Ensure assets over \$1,000 are accounted for, per OSC Guidelines.
<b>Administrative Operations and Services Management (NYC)</b>  <b>Bill Peacock</b>	Handle all deposits of cash receipts for various collections made by the NYC Bureaus.  Maintains Petty cash Account.	Segregation of duties exists between receipt and restrictive endorsement (in Bureaus) and deposit and reconciliation functions (in Administration); no checks written from this account.  Bank accounts are reconciled monthly by the office supervisor. Prepares petty cash checks upon receipt of authorized request; sends statement & documentation to BFMB (Albany) for account reconciliation and recap.	Approximately \$9.1 million in deposits from NYC based operations in 2000 - 01.	Ensures funds appropriately accounted for.
<b>Budget and Fiscal Management (BFMB)</b>  <b>Jean Woodard</b>	Payroll processing and check distribution are separate functions.	Payroll checks in the Albany and New York City offices are claimed by designated employee from each Bureau, who must sign for the checks. For Regional Offices, a transmittal is forwarded to the office and acknowledged.	Payroll was approximately \$111 million for 2000 - 01, not including fringe benefits.	Office of the Attorney General employs 1,900 people.

-- New York State Office of the Attorney General -

Internal Control Matrix by Bureau

Division / Bureau	Significant Objectives	Relevant Controls	Financial Significance	Administrative Significance
	Process cash receipts from Bureaus.	<p>Form AC909, Report of Monies Received, is approved by the Director or Assistant Director of BFMB.</p> <p>Monthly bank reconciliations are prepared and reviewed.</p> <p>Preparation and submission of annual "Sole Custody Fund/Account Report" to Comptroller; approved by Director of BFMB.</p>	\$200 million in judgements, collections, fees, etc. for 2000 - 01.	Ensure funds received, disbursed and accounted for properly.
	Uphold fiduciary responsibility over funds held for restitution.	<p>The request for withdrawal of funds must be submitted by the Director of BFMB or designee to the Office of the State Comptroller (OSC) to obtain a release of funds from escrow.</p> <p>Segregation of duties exists between check signing and check distribution functions.</p>	\$200 million in judgements, collections, fees, etc. for 2000 - 01.	Ensure funds received, disbursed and accounted for properly.
	Monitor current expenditures.	Expenditure levels are reported periodically, generally monthly, by the Director of BFMB.	Annual budget was about \$174 million in 2000 - 01.	Ensure expenditures do not exceed budget as enacted.
	Assess the fiscal requirements of OAG and submit an annual budget to Division of the Budget (DOB).	Under direction from Executive Management, the budget is prepared by BFMB.	Annual budget was about \$174 million in 2000 - 01.	Ensure Governor, Division of Budget and Legislature apprised of OAG's needs and priorities.
	Enter into contracts with experts to provide assistance in litigation.	<p>The Request for Expert Witness is approved by a Division Chief, Bureau Chief, BFMB, and OSC where required.</p> <p>A retainer letter specifying the maximum amount that will be paid is signed by the Director or Assistant Director of BFMB and submitted to the expert.</p>	\$4.1 million was paid to experts in 2000 -01.	Ensure availability of experts needed to support cases on behalf of the State.
	Checking Accounts	Maintains Albany Petty Cash, OCTF Confidential Fund Sub Accounts, and Attorney General's Reimbursement.	Checking accounts total about \$165,000.	Ensure accounts balance & funds are accounted for.

-- New York State Office of the Attorney General -

Internal Control Matrix by Bureau

Division / Bureau	Significant Objectives	Relevant Controls	Financial Significance	Administrative Significance
	<p>Serve as purchasing agent for OAG, initiate bidding process when appropriate; separate group ensures that payment is made within 30 days of receipt of goods and services</p>	<p>A Purchase Request form is required for all purchases. All request forms are signed by the Division Chief or assigned representative.</p> <p>The purchasing agent will review and sign all purchase requests and purchase orders.</p> <p>All purchase orders are prenumbered.</p> <p>Specific bidding procedures must be followed for all non-State contract purchases unless only a sole or single source vendor can meet the needs of OAG. Informal bidding occurs for all purchases between \$5,000 - \$15,000. Any single non-State contract purchase greater than \$15,000 requires competitive bids to be obtained through a formal bidding process.</p> <p>Standard vouchers are reviewed and signed by the Director or Assistant Director of BFMB. All vouchers are prenumbered by the computer system when the PO is entered to prevent duplicate payments.</p> <p>Invoices requesting payment are verified by group/individual receiving service/goods prior to payment. Actual payments processing and certification of payments are separate functions. A tracking system is in place to ensure payments are made with the required time period.</p>	<p>Nonpersonal service expenditures were \$53 million in 2000 - 01.</p>	<p>Ensures State procurement and payments laws and guidelines are followed.</p>

Internal Control Matrix by Bureau

Division / Bureau	Significant Objectives	Relevant Controls	Financial Significance	Administrative Significance
	Monitor guidelines issued by State agencies (i.e., OSC, DOB) and directives of the Attorney General to ensure OAG is functioning as intended.	<p>A file of guidelines issued by State agencies and directives of the Attorney General is maintained and monitored.</p> <p>Administrative memoranda, addressing significant guidelines and directives, are approved and issued.</p>		Administrative policies and procedures are established in accordance with Attorney General, OSC, and DOB Guidelines.
<p><b>Human Resources</b> <b>Eric Schwenzfeier</b></p>	Ensure Civil Service Laws and Rules and Regulations are observed and complied with regarding staffing of all competitive positions and the classification of all positions.	<p>A request to fill must follow the agency prescribed procedure of approval by Bureau Chief, and Division Chief or his/her deputy; under financial constraint, the First Deputy of the Attorney General also must approve.</p> <p>A position represented by the CSEA negotiated contract must be posted for 10 days, as specified in the contract.</p> <p>Competitive class candidates must be selected from eligibility lists and approved by Civil Service.</p> <p>Exempt hires must be approved by the Chief of Staff.</p>	Payroll was at \$111 million in 2000 - 01, not including fringe benefits.	Ensure compliance with Civil Service Laws and Regulations: non-compliance may result in fines and lawsuits.
	Certify Time and Attendance.	Review time and attendance records to ensure that they are completed correctly, signed and certified by both employee and supervisor.	Payroll was approximately \$111 million in 2000 - 01, not including fringe benefits.	Office of the Attorney General employs 1,900 people.
	Timely and Accurate processing of Office of the Attorney General payroll information.	<p>Segregation of duties between Payroll and Personnel functions.</p> <p>Form PR76: the transmittal form that accompanies the payroll information is reviewed and signed by one of the following:</p> <ul style="list-style-type: none"> <li>- Director of Human Resources</li> <li>- Assistant Director of Human Resources</li> </ul>	Payroll was approximately \$111 million in fiscal year 2000-01, not including fringe benefits	Office of the Attorney General employs 1,900 people.

Internal Control Matrix by Bureau

Division / Bureau	Significant Objectives	Relevant Controls	Financial Significance	Administrative Significance
<p><b>Legal Technology</b> <b>Robert Vitello</b></p>	<p>The computer operations objective is to provide controls over completeness and accuracy of data processed and ensure proper backup of production data files.</p>	<p>Changes to the job schedule must be requested in writing by users who review the job output.</p> <p>Daily backups are performed on the system. Logs are prepared and reviewed daily.</p>		
	<p>The program and data file security objective is to provide a secure environment (i.e., only authorized individuals have access), allow users to meet their data processing needs and rely on the results of this processing.</p>	<p>The supervisor of Legal Technology is responsible for approving access capabilities.</p> <p>Passwords are changed periodically.</p>		
	<p>The system software objective is to provide for testing of changes to system software used by OAG.</p>	<p>OAG submits written results of tests performed when system software upgrades are made.</p>		

Internal Control Matrix by Bureau

Division / Bureau	Significant Objectives	Relevant Controls	Financial Significance	Administrative Significance
	<p>The maintenance objective is to provide programming and technical support for application systems.</p>	<p>Procedures exist to test implementation and approval of modifications to existing programs.</p> <p>The Supervisor of Legal Technology has the responsibility for general applications development and for reviewing and prioritizing written requests for modifications to existing systems.</p> <p>Programmers modify in a test environment.</p> <p>For on-line applications, OAG programmers request in writing the transfer of modified object modules to production by system programmers at OGS.</p> <p>The Supervisor of Legal Technology reviews documentation to ensure only authorized modifications to source and object modules for batch applications and source modules for on-line applications have been transferred to production. The Supervisor of Legal Technology performs a review of production libraries to ensure source and object modules are the same.</p>		
	<p>Major initiatives and budgetary resources are reviewed by the Legal Technology Committee.</p>	<p>Committee reviews and prioritizes the technology agenda.</p>	<p>Approximately \$10.3 million was spent on technology equipment, software and application development and implementation in 2000 - 01.</p>	<p>Ensure OAG technology priorities are addressed and resources allocated appropriately.</p>
	<p>Inventory of hardware and software.</p>	<p>Monitored from issuance of purchase requisitions to surplus property. Separate inventory is maintained in Legal Technology</p>	<p>Approximately \$4.9 million in computer equipment was purchased in 2000 - 01.</p>	<p>Ensure assets over \$1,000 are accounted for per OSC Guidelines.</p>

Internal Control Matrix by Bureau

Division / Bureau	Significant Objectives	Relevant Controls	Financial Significance	Administrative Significance
	<p>The objective of the Local and Wide Area Networks (LAN or WAN) is to provide users with the ability to share software, data files and printers in a secure microcomputer environment.</p>	<p>Users must have a log-in ID, password and home director, which is established by the appropriate agency's LAN/WAN manager in order to access network-shared resources.</p> <p>Passwords must be changed every 40 days and the same password may not be used twice in one year.</p> <p>Users cannot escape from the user menu without logging out of the network.</p> <p>Each user is assigned group and user rights, which restrict access to the directory.</p> <p>Files are flagged with attributes to restrict update access.</p> <p>Virus detection and sterilization software runs on workstations and network servers.</p>		
	<p>Changes or revisions to hardware and software are controlled and authorized.</p>	<p>Administrative Memorandum TECH-1 outlines requests for new services (software, hardware, labor).</p> <p>Forms must be approved by bureau chiefs and division directors.</p> <p>Security review is performed on all software prior to adding to the resource base.</p>		

-- New York State Office of the Attorney General -

Internal Control Matrix by Bureau

Division / Bureau	Significant Objectives	Relevant Controls	Financial Significance	Administrative Significance
<p><b>APPEALS &amp; OPINIONS</b></p> <p><b>Appeals &amp; Opinions (Albany &amp; NYC)</b></p> <p>Caitlin Halligan</p>	<p>Responsible for the oversight of all appellate litigation in State and Federal courts</p>	<p>Appeal recommendations are logged and appropriate action is determined under the supervision of the Solicitor General.</p> <p>Monthly and quarterly reports are prepared detailing case status.</p> <p>An annual report of significant matters is prepared for the Solicitor General and the Attorney General.</p>		<p>Section 63 of Executive Law lists Attorney General &amp; Solicitor General duties.</p>
<p><b>CRIMINAL DIVISION</b></p> <p><b>Criminal Prosecutions (Albany &amp; NYC)</b></p> <p>Peter Pope</p>	<p>Investigate criminal matters referred to the Attorney General and enforce criminal statutes within the jurisdiction of OAG.</p>	<p>Complaints are logged and appropriate action is determined.</p> <p>Case initiation and attorney assignment is approved by either the Deputy Bureau Chief (NYC or Albany) or as to cases within a particular section, by a section chief.</p> <p>A tracking system is in place to monitor case status.</p> <p>Approval of the Bureau Chief or Deputy Bureau Chief is required to submit charges to a grand jury.</p> <p>NYSPIN Warrant and Criminal History Request forms are signed by either the Bureau Chief, deputy Bureau Chief, or the Section Chief.</p> <p>Cases may not be disposed of by plea negotiation without approval of the Bureau Chief.</p> <p>The Bureau Chief meets with attorneys periodically to discuss the status of cases.</p>		<p>General duties of the Attorney General mandated by Section 63 of the Executive Law, various other statutes empower Attorney General with criminal prosecution jurisdiction.</p>

-- New York State Office of the Attorney General -



**Internal Control Matrix by Bureau**

Division / Bureau	Significant Objectives	Relevant Controls	Financial Significance	Administrative Significance
<p><b>Medicaid Fraud Control Unit</b>  <b>(Albany, Buffalo, NYC, Pearl River, Syracuse)</b>   <b>Karen Lupuloff</b></p>	<p>Ensure proper authorization and completeness of Confidential Fund disbursements.</p>	<p>Requests for Advances from Confidential Fund authorized by completing Request for Funds form with Executive approval.</p> <p>Confidential Fund is reconciled monthly by a disinterested party.</p> <p>Sequential log is maintained of Requests by fund custodian.</p> <p>A "Receipt for Funds" form is completed for all undercover payments.</p> <p>"Close Out" forms for Advances are prepared and certified by supervisors.</p>		

**Internal Control Matrix by Bureau**

Division / Bureau	Significant Objectives	Relevant Controls	Financial Significance	Administrative Significance
	<p>Process cash receipts from alleged criminal sources.</p>	<p>Seized cash is processed by the investigator. The cash is inventoried and secured in a sealed clear evidence bag. The cash and sealed bag are logged into an evidence log, assigned an evidence number, and placed into a locked file cabinet located inside a locked evidence room. Cash remains secured in the evidence room until the investigator removes it for court purposes by properly signing cash out of evidence logbook. Cash is generally maintained in the evidence room until the case is disposed of. Thereafter, cash is properly removed from the property room and hand carried to the finance office, whereby a receipt is issued to the investigator.</p>		

**Internal Control Matrix by Bureau**

Division / Bureau	Significant Objectives	Relevant Controls	Financial Significance	Administrative Significance
	<p>Prosecute on behalf of the State, crimes related to fraud in the Medicaid Program and patient abuse.</p>	<p>Cases which, in the opinion of the appropriate Regional Director or Bureau/Division Chief, have been determined to have prosecutorial potential are assigned to an attorney, auditor and investigator within the Regional and/or Bureau/Division for legal analysis, audit and investigation. A memorandum is issued indicating that the case has been opened.</p> <p>The Supervising Investigator assigns a number to the case and enters it into a log.</p> <p>Litigation documentation is maintained by the Central Files Unit.</p> <p>Cases are reviewed by a senior attorney.</p> <p>Electronic surveillance-related documents and materials are maintained in locked facilities by the Tech Room Senior Investigator, who also maintains a log of the documents and materials.</p>		

**Internal Control Matrix by Bureau**

Division / Bureau	Significant Objectives	Relevant Controls	Financial Significance	Administrative Significance
	<p>Cash Receipts - Restitution: Ensure proper control and safeguarding of funds.</p>	<p>All awards are set up in Account Folders and Trial Balance File - based on forms received from Special Assistant Attorney(s) General ( SAAGS).</p> <p>Finance Aide processes checks, updates Account file and prepares AC909.</p> <p>Second Finance Aide reviews and signs off all forms.</p> <p>Finance Assistant signs AC909.</p> <p>AC909 forms are posted to computer file.</p> <p>Month end Trial Balances and reconciliations are prepared and sent to Executive management and SAAGS.</p> <p>AC909 sent to Treasury are checked to J10's and LED40.</p> <p>No accounts can be written off unless approved in writing by the Deputy Attorney General.</p>		

Internal Control Matrix by Bureau

Division / Bureau	Significant Objectives	Relevant Controls	Financial Significance	Administrative Significance
<p><b>Organized Crime Task Force</b> <b>(White Plains &amp; Buffalo)</b> <b>George Quinlan</b></p>	<p>Ensure proper authorization and completeness of confidential disbursements.</p>	<p>Requests for advance payments from the Confidential Fund bank account are authorized by using a Request for Funds form and telephone bill payments are authorized by using a Telephone Payment Request Form. As appropriate, bills are routed to Albany, Buffalo or White Plains to the appropriate sub-account for payment.</p> <p>Requests exceeding \$5,000 require the written authorization of the Deputy Attorney General or his/her designee. Requests exceeding \$10,000 require written authorization of the Division Head or his/her designee. Requests exceeding \$10,000 require written authorization of the Division Head or his/her designee.</p> <p>Prepares checks pursuant to documented and executed requests and maintains back-up.</p> <p>Requester acknowledges receipt of funds by signing the Request for Funds form under the Fund Processing and Receipt section. For funds requested for a Cooperation form when funds are received.</p> <p>Requester submits a Closeout for Fund Advance or interim reports with receipts, required documentation and any funds not expended.</p> <p>The Chief Investigator reviews and initials Closeout for Fund Advance.</p> <p>Separate functions reconciles and recaps fund; each sub-account is reconciled separately, with the Full Confidential Fund balances reconciled and recapped in Albany BFMB by staff.</p>	<p>The OCTF Confidential Fund accounts are authorized at a combined total of \$125,000.</p>	<p>Ensure funds are documented and accounted for properly.</p>

-- New York State Office of the Attorney General --

**Internal Control Matrix by Bureau**

Division / Bureau	Significant Objectives	Relevant Controls	Financial Significance	Administrative Significance
	<p>Process cash receipts and disbursements from alleged criminal sources.</p>	<p>Access to seized cash is limited by entering cash into the evidence vault using a Property Form. The Property Form is signed by the investigator who seized the money.</p> <p>Cash is generally not maintained in the evidence vault for longer than the next available banking day. The investigator who deposits the money (not the investigator who brought the money in) into the Lawyer's Escrow Account forwards the validated deposit slip and a memo specifying the subject the asset was confiscated from, case # and amount of deposit to OCTF Confidential Staff.</p> <p>Completed request for payments form is forwarded to OSC along with the court order. OSC forwards the funds back to confidential staff who deposit the funds into the Lawyer's Escrow Account. The Confidential staff will cut the check(s) in accordance with the instructions forwarded on the memo.</p> <p>Authorized signers are the Director and Assistant Director of BFMB, and two confidential staff members.</p> <p>A "Monies Received Report" (AC 909) is completed, approved by the Director and/or Assistant Director of BFMB and logged into the manual logbook for all forfeited monies. The check and a copy of the AC 909 are then forwarded to the OSC.</p> <p>The Lawyer's Escrow Account is reconciled monthly by the OCTF Finance Controller.</p>		

Internal Control Matrix by Bureau

Division / Bureau	Significant Objectives	Relevant Controls	Financial Significance	Administrative Significance
<p><b>Public Advocacy</b></p> <p><b>Antitrust (NYC)</b></p> <p><b>Jay Himes</b></p>	<p>Represent the State and its citizens in State and Federal antitrust litigation, enforce the State and Federal Antitrust Laws against restraints of trade, and promote competition and free enterprise within New York State.</p>	<p>Complaints and other enforcement actions are logged and reviewed to determine appropriate action.</p> <p>Case initiation is performed, litigation documentation is accumulated, and settlements are reviewed by the Bureau Chief.</p> <p>A semiannual status report of significant matters is prepared for the Division Chief and the Attorney General.</p>		<p>Attorney General's authority pursuant to Donnelly Act and Section 15c of US code (the Hart Scott Act) empowers the AG of each state with the authority to represent all consumers in their respective state.</p>
<p><b>Charities (Albany &amp; NYC)</b></p> <p><b>Bill Josephson</b></p>	<p>Review various activities of not-for-profit corporations including:</p> <ul style="list-style-type: none"> <li>- filing of amendments of certificates of incorporation.</li> <li>- sales of property (only sales of all or substantially all assets of charitable organizations, and all sales of real property by certain religious organizations).</li> <li>- mergers.</li> <li>- dissolutions of corporations.</li> </ul> <p>Fulfill the statutory oversight role of charitable organizations and assets by requiring registration and annual reporting by:</p> <ul style="list-style-type: none"> <li>- charities</li> <li>- foundations</li> <li>- trusts and estates with charitable interest.</li> </ul> <p>Fulfill statutory oversight of fund-raising professionals by requiring registration of:</p> <ul style="list-style-type: none"> <li>- Professional Fund Raisers</li> <li>- Professional Fund-raising Counsel</li> <li>- Solicitors (Albany).</li> </ul>	<p>A log of certificates and amendments is maintained to record receipt and return of certificates.</p> <p>Sales, mergers and dissolutions are reviewed by the attorney assigned, who provides a no objections endorsement or makes objections as appropriate.</p> <p>Registrations are logged.</p> <p>Annual reports and filing fees are logged.</p> <p>Delinquent annual report filings are monitored.</p> <p>A database is maintained of registration information.</p>		<p>Attorney General's authority is dictated by the Not-for-Profit Corporation Law.</p> <p>Section 8-1.4 of the Estates, Powers and Trust Law and article 7A of the Executive Law dictate the Attorney General's authority.</p> <p>Article 7A of the Executive Law dictates Attorney General's authority.</p>

Internal Control Matrix by Bureau

Division / Bureau	Significant Objectives	Relevant Controls	Financial Significance	Administrative Significance
	<p>Protect the interests of the public as the ultimate beneficiaries of all charitable gifts and bequests contained in wills and trust agreements.</p>	<p>Cases are logged and assigned to the appropriate attorney.</p> <p>Fiduciary accounting is reviewed by an Assistant Attorney General before an approved distribution is made from an estate that contains a gift to a charitable organization.</p>		<p>Attorney General's authority is dictated by the Estates Powers and Trust Law.</p>
	<p>Review inquiries and complaints, and protect the interests of the public by initiating investigations and litigation where appropriate.</p>	<p>Complaints are logged and appropriate action is determined. If cases are initiated, they are recorded in a case log. Documentation is accumulated. Significant matters are reported to the Division Chief in periodic reports.</p>		<p>The Attorney General is empowered to investigate and litigate violators through Executive Law, Estates, Powers and Trust Law, and Non-for-Profit Corporation Law.</p>
	<p>Process funds collected from settlements.</p>	<p>Financial effects of settlements are administered by BFMB.</p>		
<p><b>Civil Rights (NYC)</b>  <b>Andy Celli</b></p>	<p>Enforce Civil Rights Law under State and Federal law through investigation, litigation, monitoring and settlement in the courts.</p>	<p>Complaints are logged and appropriate action is determined.</p> <p>Case initiation is approved by the Bureau Chief.</p> <p>Litigation documentation is reviewed by the Bureau Chief and, when case is significant, by the Division Chief.</p> <p>Results of monitoring are memoed and filed.</p> <p>Case resolution is approved by the Bureau Chief and Division Chief.</p> <p>A periodic status report of significant matters is prepared for the Division Head.</p>		<p>Section 63 of the Executive Law and the State Human Rights Law grant Attorney General's responsibility.</p>



**Internal Control Matrix by Bureau**

Division / Bureau	Significant Objectives	Relevant Controls	Financial Significance	Administrative Significance
<p><b>Consumer Frauds and Protection (Albany &amp; NYC)</b></p> <p><b>Tom Conway</b></p>	<p>Protect the consumer from fraudulent, misleading, deceptive and illegal business practices and, where appropriate, undertake mediation efforts or initiate investigations and seek an assurance of discontinuance, institute litigation or obtain a consent judgement. Represent the public interest in utility rate, energy cost and policy matters.</p>	<p>Complaints are logged and reviewed to determine appropriate action.</p> <p>Periodic reports are produced detailing progress of complaints.</p> <p>Case initiation takes place and litigation documentation is accumulated and reviewed by the Bureau Chief.</p> <p>All pending briefs and other legal documents are reviewed by the Bureau Chief or Deputy Bureau Chief.</p> <p>Periodic meetings are held to discuss upcoming and significant matters.</p> <p>Assurance of discontinuance or consent judgement is approved by the Bureau Chief.</p>		<p>Section 63 of the Executive Law grants Attorney General's authority.</p> <p>Article 78 of the Civil Practice Laws &amp; Rules allows Attorney General to represent the public interest.</p> <p>Section 198-a of the General Business Law mandates Attorney General's responsibility.</p>
	<p>Administer the State's Lemon Law Program, including collection of restitution and damages from violators.</p>	<p>Arbitration applications are reviewed and submitted to the Administrator appointed by -- ?</p> <p>The Compliance Officer obtains settlement forms from case attorney and logs collections. If applicable, settlements are administered by BFMB.</p> <p>An annual report with arbitration statistics is prepared.</p>		<p>Rules and regulations promulgated by the Attorney General pursuant to the General Business Law.</p>

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**Internal Control Matrix by Bureau**

Division / Bureau	Significant Objectives	Relevant Controls	Financial Significance	Administrative Significance
<p><b>Environmental Protection (Albany &amp; NYC)</b>  <b>Peter Lehner</b></p>	<p>Initiate affirmative litigation on behalf of the State to protect the public health and safety from the threat of</p> <ul style="list-style-type: none"> <li>- air and water pollution</li> <li>- acid rain</li> <li>- hazardous wastes.</li> </ul> <p>Defend State agencies when their regulatory actions regarding environmental matters are challenged.</p> <p>Defend State agencies accused of violating environmental statues or regulations.</p> <p>Process court settlements.</p>	<p>Communication is established between the Department of Environmental Conservation (DEC) and Bureau Chief to identify and initiate a formal complaint. For non-agency referrals, case initiation is approved by the Bureau Chief.</p> <p>Complaints are logged and attorney assignment is determined.</p> <p>File documentation and referral letters are maintained for all cases.</p> <p>Calendars are maintained to keep track of cases. Maintain full case reports, updated regularly, tracking cases in progress.</p> <p>Periodic reports of significant matters are prepared for the Bureau Chief and the Deputy Attorney General.</p>		<p>The Executive Law, Environmental Conservation Law, State Common law, Federal Environmental Protection Law and Public Health Law dictate Attorney General's authority.</p>
<p><b>Investor Protection (NYC)</b>  <b>Eric Dinallo</b></p>	<p>Protect the public from fraud by regulating sales of investment securities and commodities in NYS and requiring registration of the following with OAG:</p> <ul style="list-style-type: none"> <li>- brokers</li> <li>- dealers</li> <li>- salesmen</li> <li>- investment advisors</li> <li>- issuers of securities.</li> </ul> <p>Where appropriate, undertake investigations, and civil litigation.</p>	<p>Registration documents are reviewed, comparing the filing with rules and regulations to ensure full disclosure (in-house or by the Central Registration Depository for National Association of Securities Dealers members).</p> <p>Complaints are logged and appropriate action is determined.</p> <p>Case initiation takes place, litigation documentation is accumulated and case dispositions are approved by the Bureau Chief.</p> <p>A periodic status report of significant matters is prepared for the Division Chief.</p>		<p>Martin Act mandates Attorney General's responsibility.</p> <p>Prosecute violators of the Martin Act; Business Corporation Law-takeovers (Article 16-Sections 1600 to 1623); General Business Law - franchises (Article 33-Sections 680 to 695); and Art and Culture Affairs Law (Article 23-Sections 2301 to 2323).</p>

Internal Control Matrix by Bureau

Division / Bureau	Significant Objectives	Relevant Controls	Financial Significance	Administrative Significance
	Enforce laws regulating the following: - financing of theatrical ventures - sale of franchises - corporate takeovers  Registration of box office employees and supervisors.	Registration documents are reviewed, comparing the filing with rules and regulations to ensure full disclosure.  Records are kept of all persons who have control of the original distribution of tickets.		Business Corporation Law - takeovers (Article 16-Sections 1600 to 1623); General Business Law-Franchises (Article 33 - Sections 680 to 695); and Art and Culture Affairs Law (Article 23-Sections 2301 to 2323).
	Protect the public from fraud with respect to real estate offerings including: - co-operatives - condominiums - syndications - homeowners associations - timesharing	Comparisons are made with rules, regulations and a checklist to ensure full disclosure in the offering document.  The reviewing attorney makes comments on the proposed offering document.		
	Investigate complaints and where appropriate, initiate civil or criminal actions.	Complaints are logged and appropriate action is determined.  Case initiation is approved by the Division Chief.  A periodic status report of significant matters is prepared for the Division Head.		
	Process court settlements and filing fees.	If applicable, cash settlements and filing fees are administered by BFMB.		

**Internal Control Matrix by Bureau**

Division / Bureau	Significant Objectives	Relevant Controls	Financial Significance	Administrative Significance
<p><b>REGIONAL OFFICES</b></p> <p><b>Marty Mack</b></p> <p><b>Binghamton</b>  <b>Brooklyn</b>  <b>Buffalo</b>  <b>Harlem</b>  <b>Nassau</b>  <b>Plattsburgh</b>  <b>Poughkeepsie</b>  <b>Rochester</b>  <b>Suffolk</b>  <b>Syracuse</b>  <b>Utica</b>  <b>Watertown</b>  <b>White Plains</b></p>	<p>Responsible for coordination of State Counsel work related to Claims and Litigation, Public Advocacy work related to Consumer Frauds, and other legal actions as needed.</p>	<p>Cases and complaints are logged and received by Regional Office Heads and assigned; overall direction and management provided by Division Head.</p>		<p>Section 63 of Executive Law lists Attorney General's duties. Other Sections cited in various legal divisions apply here, too.</p>
<p><b>STATE COUNSEL</b></p> <p><b>Contract Approval (Albany)</b></p> <p><b>Steve Hensel</b></p>	<p>Review and process State agency contracts and fiduciary bonds.</p>	<p>OSC will not approve contracts prior to Attorney General approval.</p>		
<p><b>Civil Recoveries (Albany)</b></p> <p><b>Mary House</b></p>	<p>Collect monies owed to the State from delinquent accounts, unpaid student loans, damages to State property, fines and other penalties.</p>	<p>Segregation of duties exists between receipt and restrictive endorsement (in mailroom), preparation of receipts log (in Civil Recoveries), and deposits of collections (in BFMB).</p>	<p>Approximately \$77 million in collections during fiscal year 2000-01.</p>	<p>Section 63 of the Executive Law requires payment into the State Treasury of monies received by the Attorney General for all debts due or penalties forfeited to the people of the State.</p>

**Internal Control Matrix by Bureau**

Division / Bureau	Significant Objectives	Relevant Controls	Financial Significance	Administrative Significance
<p><b>Claims (Albany/NYC)</b> <b>Joe Perretta - Albany</b> <b>Sue Pogoda - NYC</b></p>	<p>Defend the State against actions in the Court of Claims.</p> <p>Process orders, judgments and settlement stipulations to reimburse State officers and employees who are sued personally for carrying out their official duties.</p>	<p>Claims are logged and appropriate action is determined. A tracking system is in place to monitor various stages of claims processing.</p> <p>Case status and significant case reports are prepared periodically and distributed to the Bureau Chief.</p> <p>Case settlements are approved by Bureau Chief, and depending on the amount, the Assistant Division Chief, and/or Division Chief.</p>		<p>General duties of the Attorney General mandated by Section 63 of Executive Law.</p> <p>Sections 17 and 19 of the Public Officers Law mandate the Attorney General's responsibility for Defense of Employees.</p>
<p><b>Labor (NYC)</b> <b>Patricia Smith</b></p>	<p>Defends civil action against Commissioner of Labor and brings civil and/or criminal action against employers for violations of State Labor and Workers' Compensation Laws including:</p> <ul style="list-style-type: none"> <li>- failure to pay minimum wage or fringe benefits.</li> <li>- failure to carry Workers' Comp. or disability insurance.</li> <li>- failure to comply with labor laws .</li> <li>- bankruptcy proceedings.</li> </ul> <p>Represent the Workers' Compensation Board and the Unemployment Insurance Appeal Board when its decisions are appealed.</p>	<p>The complaint or proceedings is logged and appropriate action is determined.</p> <p>Case initiation is approved by the Bureau Chief.</p> <p>Formal procedures exist to address complaints and handle cases, including review of status of cases by the Division Chief with the Bureau Chief on a periodic basis.</p> <p>Review procedures exist to address various types of appeals.</p>		<p>Section 63 of the Executive Law mandates Attorney General's responsibility.</p>

**Internal Control Matrix by Bureau**

Division / Bureau	Significant Objectives	Relevant Controls	Financial Significance	Administrative Significance
<p><b>Litigation (Albany &amp; NYC)</b>   <b>Bruce Feldman - Albany</b>  <b>Jim Henley - NYC</b></p>	<p>Defense of State against actions in courts other than Court of Claims.</p>	<p>Actions are logged and appropriate action is determined. A tracking system is in place to monitor various stages of processing.</p> <p>Case status and significant case reports are prepared periodically and distributed to the Bureau Chief.</p> <p>Case settlements are approved by Bureau Chief, and depending on the amount, the Assistant Division Chief, and/or Division Chief.</p> <p>Settlement Funds are managed by BFMB, if held by State.</p>		<p>General duties of the Attorney General mandated by Section 63 of Executive Law; additional duties mandated by Section 71 of the Executive Law and Section 17 of the Public Officers Law.</p>
<p><b>Real Property</b>   <b>Henry DeCotis</b></p>	<p>Land title, eminent domain, and other property work for State agencies.</p>	<p>Actions are logged and appropriate action is determined. A tracking system is in place to monitor various stages of processing.</p> <p>Action status and significant case reports are prepared periodically and distributed to the Bureau Chief.</p>		<p>Statutes govern the various State Agencies to utilize the Bureau in real property transactions.</p>

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-- New York State Office of the Attorney General -

## FOUR-STEP PROCESS FOR INTERNAL CONTROL

The Internal Control Act requires agencies to take specific actions to enhance controls over operations. These steps are defined in the Act and explained further in Budget Policy and Reporting Manual Item B-350. In addition, various internal control concepts, standards and guidelines are contained in the "Internal Control Guide" which DOB distributed to each agency and the "Guide to Internal Controls" distributed at the training sessions sponsored by the Division of the Budget.

This document will assist agencies to develop and follow a process which identifies and reviews controls over their operations. The process involves identifying agency functions, conducting Vulnerability Assessments and Internal Control Reviews and taking necessary corrective actions. This process is an important part of any successful and well integrated internal control program.

To evaluate its system of internal controls, each agency should:

- Identify the functions it performs in support of its stated mission and program objectives;
- Assess the risks and consequences which are likely to occur if those functions are not properly performed; i.e., the vulnerability of the function to errors, irregularities, or unintended program results;
- Review existing controls, scheduling such reviews according to functions' levels of vulnerability; and
- Take appropriate steps to correct internal control weaknesses.

### STEP ONE: IDENTIFY FUNCTIONS

The most effective way to begin an evaluation of internal control systems is to segment an agency into organizational units and thereby to develop an inventory of the functions and responsibilities of those units. This inventory should cover all program and administrative functions necessary for the agency to carry out its mission. These functions should be defined clearly enough to facilitate a meaningful vulnerability assessment of each area.

Functions can be most easily identified through organizational charts, departmental budgets, policy and procedure manuals, job descriptions, and program and financial management information systems. A sample function Identification Form follows to guide agencies in completing this inventory.



### FUNCTION IDENTIFICATION FORM

#### INSTRUCTIONS:

This form should be completed by the organization's upper management responsible for specific areas of operation.

Fill in the name, title, organizational unit and area of responsibility of the individual completing the form.

List the functions and the responsible individuals for all functions related to the area of responsibility.

A function is defined as a group of related activities performed by an operating unit of an organization.

EXAMPLE: Name: John Smith

Title: Director

Organizational Unit: Administrative Services

Area of Responsibility: Personnel

<u>Functions</u>	<u>Responsible Individual</u>
<u>Hiring</u>	<u>Jim Jones</u>
<u>Time and Attendance</u>	<u>Sally Doe</u>
<u>Affirmative Action</u>	<u>Jim Jones</u>
<u>Personnel Records</u>	<u>Robin Bird</u>
<u> </u>	<u> </u>

Prepared by: \_\_\_\_\_ Name \_\_\_\_\_  
Reviewed By: \_\_\_\_\_ Date \_\_\_\_\_

**FUNCTION IDENTIFICATION FORM**

Name: \_\_\_\_\_

Title: \_\_\_\_\_

Organizational Unit: \_\_\_\_\_

Area of Responsibility: \_\_\_\_\_

Functions

Responsible Individual

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Source: Ernst and Young Public Accounting Firm

## STEP TWO: ASSESS VULNERABILITIES

A Vulnerability Assessment is a general review of the susceptibility of a function to errors, irregularities, unauthorized use, or inappropriate program results. It is used to determine the likelihood that something could go wrong and to evaluate the seriousness of those consequences.

The Vulnerability Assessment is intended to provide an agency with the following:

1. A road map for what functional areas should get priority attention from management because of the nature, sensitivity and importance of the function's operations;
2. A preliminary judgment from managers about the adequacy of existing internal control techniques to minimize or detect problems; and,
3. An early indication of where potential internal control weaknesses exist which should be corrected.

As a general rule, to properly assess the current level of risk associated with a function, the vulnerability assessment should address such factors as:

- The attitude of management toward maintaining effective internal control systems;
- The technical or administrative complexity of the operation;
- The existence of adequate organizational charts, lines of communication, and clear designation of work assignments;
- Demonstrated adherence to prescribed policies and procedures;
- The fiscal implications of the program, including the size of the budget and the extent to which the function involves the handling of cash receipts or the approval of contract or grant funds;

- The sensitive nature of the program and the extent to which program decisions can be influenced by external sources, time constraints, or conflicts of interest on the part of agency officials;
- The professional training and technical proficiency of staff needed to correctly perform the function;
- The stability of the operations in terms of the rate of change in functional responsibilities, staff turnover, permanence of the functional unit, and re-configurations of the organizational structure;
- The frequency of internal or external audits of the function and the significance of audit findings; and
- The inherent risk associated with the function regardless of the existence of adequate internal controls.

The results of the Vulnerability Assessment allow agencies to classify functions as High, Moderate, or Low risk. The results may also highlight specific weaknesses where immediate remedial steps can be taken by management. More importantly, however, the vulnerability assessment process offers an agency the opportunity to rank functions in priority order--most important to least, most vulnerable to least--to schedule, on a systematic basis, reviews to determine how well internal controls are working.

After the initial vulnerability assessment is completed, it should be updated periodically at the discretion of management. Revisions should be made if the agency undergoes organizational, staffing, or program changes or if an internal control review, audit, or other management analysis uncovers unexpected weaknesses. A sample Vulnerability Assessment form follows:

## FUNCTIONAL VULNERABILITY ASSESSMENT

Function \_\_\_\_\_ Office/Unit \_\_\_\_\_

Description of the Function \_\_\_\_\_

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Responsible Individual \_\_\_\_\_ Telephone \_\_\_\_\_

For each characteristic listed below, rate the function's vulnerability from 1 to 5, with 5 being the highest degree of risk. For example, a highly sensitive, technical or administratively complex function should be rated a 5 for the first category listed below.

1. Sensitivity and Complexity of Operations: Rating \_\_\_\_\_

The function is important to the agency's primary responsibilities; sensitive to program, fiscal, or political considerations; or is considered highly technical or administratively complex. (Greater complexity means greater risk.)

2. Personnel: Rating \_\_\_\_\_

Properly trained and technically proficient personnel are assigned to this function; assignments are clearly defined; employee performance is periodically reviewed and additional staff development is provided as necessary. (The more qualified and trained the staff, the lower the risk.)

3. Policies and Procedures: Rating \_\_\_\_\_

The function has formal policies and procedures which are documented, current, and available; they are periodically reviewed and updated; the policies clearly define employee responsibilities and limits of authority. (The better the documentation, the lower the risk.)

4. Financial Assets: Rating \_\_\_\_\_

The function handles significant cash receipts, disbursements, and negotiable instruments; it requires the maintenance of accurate and comprehensive financial records. (More handling of funds means greater risk.)

5. Authorizations: Rating \_\_\_\_\_

The function involves approving applications, certifications or contracts or requires on-site inspections of facilities. (The greater the involvement, the higher the risk.)

6. Influence: Rating \_\_\_\_\_

The function is subject to external influence by interest groups and/or private interests with the potential for conflicts of interest on the part of administrators or employees. (More interest group contact and potential for undue influence means greater risk.)

7. Stability of operations: Rating \_\_\_\_\_

The function has existed for some length of time with the same fundamental mission, without major new responsibilities, legislative mandates, or personnel changes. (More instability means greater risk.)

8. Organizational Structure: Rating \_\_\_\_\_

The organizational structure is well-documented and periodically reviewed; areas of authority are clearly defined; direct and indirect lines of supervision (especially over field personnel) are established and understood. (The more decentralized the structure, the greater the risk.)

9. Frequency of Reviews: Rating \_\_\_\_\_

The function is subject to frequent outside reviews of operations by agency internal auditors, outside auditors, accreditation groups or other oversight bodies. (Fewer reviews and less follow-up mean greater risk.)

10. Impact of Failure: Rating \_\_\_\_\_

The impact may be significant if the function should fail to operate properly or if the internal controls should fail to detect the misuse or misappropriation of assets by employees. (Greater significance means greater risk.)

11. Physical Assets: Rating \_\_\_\_\_

The function maintains an inventory of expensive or transportable physical assets which could be lost, stolen, or damaged. (More expensive or transportable assets means greater risk.)

12. Reliance on Information Systems: Rating \_\_\_\_\_

The function relies on or is responsible for statistical information, either electronic or hard copy, which must be accurate, complete, and protected from unauthorized use. (More reliance upon, and complexity of, statistical information means greater risk.)

Rating Score \_\_\_\_\_  
(Add ratings 1-12)

**Summary Assignment of Level of Vulnerability:**

Review the total rating score for the characteristics noted above and assign a summary level of the vulnerability associated with this function. The level assigned should be used to determine the order and frequency of internal control reviews, or other immediate corrective actions. High vulnerability functions will be reviewed first and more frequently.

- A rating score of 48 or above indicates HIGH vulnerability
- A rating score of 25-47 indicates MODERATE vulnerability
- A rating score of 24 or below indicates LOW vulnerability

**Overall Level of Vulnerability: High \_\_ Moderate \_\_ Low\_\_**

### STEP THREE: REVIEW INTERNAL CONTROLS

The need for an internal control review of a function is related to the level of risk assigned by the vulnerability assessment. Functions identified as more vulnerable could be candidates for internal control reviews regardless of whether or not the vulnerability assessment actually identified any internal control weaknesses. Depending on the cause and level of the vulnerability, management priorities, and resource availability, an internal control review could be conducted annually, every two to three years, or less frequently.

An internal control review can take a variety of forms:

- Observing whether staff perform the function properly;
- Discussing with staff how the function is performed and whether those steps are reasonable;
- Establishing what key control objectives have to be achieved;
- Examining documents and procedures followed by staff to determine whether they are adequate and complete; and
- Evaluating and testing actual work products to confirm that procedures are being followed and that the results are consistent with planned program outcomes.

The nature of the internal control review will vary depending on the significance and complexity of the function being reviewed, the level of identified risk, and the controls in place. The greater the potential vulnerability, the greater the need for probing internal controls and, therefore, the greater the need for regular and more formal evaluation.

The results of the ICR should be documented and should answer the following questions:

- What are the objectives of the function? What is it trying to achieve? What problem is it trying to avoid? (Control objectives)
- What steps are followed to achieve those objectives? (Control techniques)



- What internal control weaknesses exist--including excessive controls--which inhibit achieving the control objectives?
- What cost-effective corrective actions can be taken to eliminate or reduce these weaknesses?

Agencies should use the following sample Internal Control Review Form to document the results of their reviews.

## INTERNAL CONTROL REVIEW FORM INSTRUCTIONS

The Internal Control Review Form is intended for agencies which have completed a Vulnerability Assessment or similar review through which functions have been identified, risks assessed, and functions ranked in priority order for further review. A function is defined as a series of activities that achieve a specific goal of the organization.

The Internal Control Review Form helps the program manager examine the controls over individual functions and the actual work being accomplished within those functions, identify weaknesses, and develop an action plan to correct those weaknesses.

The attached is more a format than a form since it has little narrative and can become as lengthy as needed to document review steps. The following special instructions for individual sections provide additional information which may be useful:

6. Key goals of the Function - what it is designed to achieve: This section is often the most difficult since the manager must articulate the function's primary objectives and the specific organizational goals -- the end results to which the organization's efforts are focused. These are the most basic or fundamental reasons for the organization's existence and show where its efforts and resources should be focused. These goals also may include circumstances to be avoided.

7. Techniques used to achieve the function's goals and avoid unwanted results: This section describes the methods (procedures, reviews, authorizations, certification requirements) by which the organization achieves its goals. It may describe the checks and balances which are employed to assure appropriate performance.

8. Method of evaluating the adequacy of control procedures: This section identifies the technique used by the reviewer to determine if controls are appropriate, followed and achieving the desired results. Techniques could include observation, discussion, evaluation, and testing of specific controls.

9. Weaknesses which might impede achieving the goals or preventing unwanted results (i.e. determine what could go wrong and what weaknesses would allow such occurrences): This section requires managers to step back and envision the whole range of possible breakdowns in the operation which might allow something to go awry to inhibit or prevent achieving the goals described in item #6. It requires an honest appraisal of where weaknesses may lie and an ability to be creative in envisioning mistakes and the potential for intentional wrongdoing. These weaknesses may merely be the absence of a review by other staff or a cross-check with other data or they may be the lack of a procedure to confirm that specific goals are achieved. This review is intended to provide the manager with an opportunity for a candid appraisal of the function's strengths and weaknesses.

10. Action plan to correct weaknesses and otherwise improve controls over the function: This section contains the manager's assessment of steps which should be taken to eliminate the weaknesses identified. It should be responsive, workable, and - more importantly - cost-beneficial. The cost of correcting the weakness should not outweigh the benefits to be gained. The Corrective Action Plan Form can be used to assign responsibility for action, to establish time-frames for completing the work, and to monitor and report on progress made.



7. Techniques used to achieve the function's goals and avoid unwanted results:

- a. \_\_\_\_\_  
\_\_\_\_\_
- b. \_\_\_\_\_  
\_\_\_\_\_
- c. \_\_\_\_\_  
\_\_\_\_\_

8. Method of evaluating the adequacy of control procedures:

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

9. Weaknesses which might impede achieving the goals or preventing unwanted results - specifically, determine what could go wrong and what weaknesses would allow such occurrences:

- a. \_\_\_\_\_  
\_\_\_\_\_
- b. \_\_\_\_\_  
\_\_\_\_\_
- c. \_\_\_\_\_  
\_\_\_\_\_

10. List actions to be taken to correct weaknesses and otherwise improve controls over the function (for each weakness, complete the Corrective Action Plan Form):

- a. \_\_\_\_\_  
\_\_\_\_\_
- b. \_\_\_\_\_  
\_\_\_\_\_
- c. \_\_\_\_\_  
\_\_\_\_\_

#### STEP FOUR: DESIGN CORRECTIVE ACTIONS

The fourth step in the process is to correct internal control weaknesses identified through the vulnerability assessment or internal control review process. A plan of corrective action should assign responsibility, establish time frames for implementing improvements, and report on progress toward these improvements. Executive management should approve the plan to assure that recommended actions are cost effective. Internal auditors or independent auditors may be used to monitor adherence to the plan and to offer recommendations on appropriate corrective actions.

Some corrective actions may be implemented immediately (i.e., refine procedures, document procedures, and conduct training). More time may be needed for those actions which require organizational changes, redeployment of resources, or a fundamental rethinking of the function's objectives.

A sample corrective action form follows. It can be used to monitor progress towards correcting weaknesses.

Corrective Action Plan

Function \_\_\_\_\_ Office/Unit \_\_\_\_\_

Responsible Individual \_\_\_\_\_ Telephone \_\_\_\_\_

Weakness to be Corrected (From Internal Control Review or Vulnerability Assessment):

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

Action(s) to be taken and Target Date for Completion of Each Action. (If no action is recommended due to the weakness being immaterial; the costs exceeding the benefits of correcting the weaknesses, or other reason, please explain.)

Action

Target Date

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

Schedule of Progress Report(s) and Office/Individual to whom reports are to be submitted \_\_\_\_\_

\_\_\_\_\_  
\_\_\_\_\_

Nearly half of New York State's agencies and authorities have chosen to use the Four Step process as their own internal control review system. The Four Step has proven itself: All of the organizations that have adopted the process have completed it successfully, and in a minimum of time. The result has been a remarkable acceleration of the pace by which New York State agencies have assessed their systems of internal control.





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**Fax cover sheet**To: *Mark Buxbaum*

Company:

Addressee fax No.: *518-427-4499*From: *Mark Chiplack*Return fax number: *518-427-4499*Date: *12-23-98*No. of pages:  
(incl. this page) *13*

If this fax is incomplete or illegible please telephone (518) 462 2030

PriceWaterhouseCoopers L.L.P.  
State Street Centre  
80 State Street  
Albany NY 12207  
Telephone: (518) 462 2030  
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Direct fax: 518-427-4499

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Message:

PRELIMINARY REPORT  
FOR DISCUSSION PURPOSES ONLY

**NEW YORK STATE DEPARTMENT OF LAW**  
**REPORT OF INDEPENDENT ACCOUNTANTS**  
**For the Period April 1, 1998 through November 13, 1998**

**PRELIMINARY DRAFT  
FOR DISCUSSION PURPOSES ONLY**

Bureau	Significant Objectives	Relevant Controls
Civil Recoveries Albany	Collect monies owed to the State from delinquent accounts, unpaid student loans, damages to State property, fines and other penalties via the Civil Prosecutions Unit.	Segregation of duties exists between receipt and restrictive endorsement (in mailroom), preparation of receipts log (in Civil Recoveries), and deposit of collections (in Finance).
Human Resources Albany	Ensure Civil Service Laws and Rules and Regulations are observed and complied with regarding staffing of all competitive positions and the classification of all positions.	<p>A request to fill must follow the agency prescribed procedure of approval by Bureau Chief, Division Chief, the Office of Budget and Fiscal Management and the First Deputy of the Attorney General.</p> <p>A position represented by the CSEA negotiated contract must be posted for 10 days, as specified in the contract.</p> <p>When appropriate competitive class candidates must be selected from eligible lists and approved by Civil Service.</p> <p>Exempt hires must be approved by the Attorney General.</p>
	Certify Time and Attendance	<p>Review time and attendance records to ensure that they are completed correctly, signed and certified by both employee and supervisor.</p> <p>Ensure that time records are less than two pay periods in arrears.</p>
Administrative Operations and Services Management Albany	Fixed asset and Equipment Inventory	<p>Responsible for distribution of pre-numbered decals applied to all significant purchases.</p> <p>Maintain computerized list of equipment by decal number and location.</p> <p>Physical inventory of fixed assets is performed periodically.</p> <p>Supplies requisitions are approved and distributed through Albany Statewide (except NYC)</p>
Contract Approval Unit Albany	Review and process State contracts and fiduciary bonds via the Contract Approval Unit.	A Contract Approval Unit exists to perform the review of a contract, and OSC will not approve contracts prior to Attorney General approval.
State Counsel Albany	Process orders, judgements and settlement stipulations to reimburse State officers and employees who are sued personally for carrying out their official duties.	Settlements are approved by the Attorney General.
Real Property Albany	Provide legal assistance to State agencies in connection with the acquisition and disposition of public land.	A standard operating procedure manual is maintained.

**PRELIMINARY DRAFT  
FOR DISCUSSION PURPOSES ONLY**

Bureau	Significant Objectives	Relevant Controls
	Provide representation to the State in disputes over title, mortgage foreclosure, tax liens, appropriation claims, and other real estate related litigation	Cases are assigned to attorneys by the Section Chief and reports of title are approved by the Bureau Chief or the Deputy Bureau Chief.  A weekly status report of significant matters is prepared for the Attorney General's Executive Committee.
Claims Albany	Defend the State against actions in the Court of Claims.	Claims are logged and appropriate action is determined.  The Bureau Chief reviews all new claims.  A tracking system is in place to monitor various stages of claims processing.  Case status reports and significant case reports are prepared periodically and distributed to the Section and Bureau Chiefs.  Case settlements are approved by Section Chiefs, Deputy Bureau Chief, and depending on the amount, the Assistant Division Chief, Division Chief and First Assistant Attorney General - Attorney General.  Recommendations on appeal are approved by Deputy Bureau Chief, Bureau Chief and Deputy Solicitor General.
Appeals and Opinions Albany	Responsible for the oversight of all appellate litigation in State and Federal courts.	Appeal recommendations are logged and decisions to appeal or not to appeal cases are made by the Solicitor General, the Deputy Solicitor General or in designated areas, by an Assistant Attorney General.
	Preparation of opinions issued by the Attorney General.	All formal opinions are reviewed and approved by the Attorney General after review by the Solicitor General and the Deputy Solicitor General. Informal opinions are reviewed and approved by the Solicitor General and the Deputy Solicitor General.
	Act as Bond Counsel to the State, serve as general counsel to the Local Government Assistance Corporation, and prepare litigation opinions for official statements, including identification of significant pending or threatened litigation and unasserted claims and assessments.	Attorney and paralegal staff is assigned, with written policies and procedures, to perform these duties.
Litigation Albany	Prosecute and defend actions on behalf of the State, its officers and agencies, in virtually all-substantive areas of law.	Cases are logged and appropriate action is determined.  The Bureau Chief reviews all significant new cases and assigns the case to an attorney or a section chief.  Case status reports and significant case reports are prepared periodically and distributed to the Section and Bureau Chiefs.  Settlements are approved by the client agency, section chief, bureau chief, and where appropriate, division management.

**PRELIMINARY DRAFT  
FOR DISCUSSION PURPOSES ONLY**

Bureau	Significant Objectives	Relevant Controls
Budget and Fiscal Management  Albany	Timely and accurate processing of Office of the Attorney General (OAG) payroll information and distribution of paychecks.	<p>Segregation of duties between Payroll and Personnel functions.</p> <p>Form PR76: the transmittal form that accompanies the payroll information is reviewed and signed by one of the following:</p> <ul style="list-style-type: none"> <li>- Director of Budget and Fiscal Management.</li> <li>- Assistant Director of Budget and Fiscal Management</li> </ul> <p>Payroll checks in the Albany and New York City offices are claimed by designated employee from each Bureau, who must sign for the checks. For Regional Offices, a transmittal is forwarded to the office and acknowledged.</p>
	Process cash receipts from Bureaus	<p>Form AC909. Report of Monies Received is approved by the Director of Budget and Fiscal Management or assistant Director of Budget and Fiscal Management.</p> <p>Monthly bank reconciliations are prepared and reviewed.</p> <p>Preparation and submission of annual "Sole Custody Fund/Account Report" to Comptroller; approved by Director of Budget and Fiscal Management.</p>
	Uphold fiduciary responsibility over funds held for claimants of defrauders.	<p>The request for withdrawal of funds must be submitted by the Director of Budget and Fiscal Management, or designee to the Office of the State Comptroller (OSC) to obtain a release of funds from escrow. The amount of release is approved by the Director.</p> <p>Segregation of duties exists between check signing and check distribution functions.</p>
	Monitor current expenditures.	Expenditure levels are reported quarterly by the Assistant Director of Budget and Fiscal Management.
	<p>Assess the fiscal requirements of OAG and submit an annual budget to Division of the Budget (DOB).</p> <p>Enter into contracts with experts to provide assistance in litigation.</p>	<p>The budget is reviewed by the Director of Budget and Fiscal Management</p> <p>The Request for Expert Witness is approved by a Bureau Chief, Division Chief, the Office of Budget and Fiscal Management, and OSC where required.</p> <p>A retainer letter specifying the maximum amount that will be paid is signed by the Director or Assistant Director of Budget and Fiscal Management and submitted to the expert.</p>

**PRELIMINARY DRAFT  
FOR DISCUSSION PURPOSES ONLY**

Bureau	Significant Objectives	Relevant Controls
	<p>Serve as purchasing agency for OAG, initiate bidding process when appropriate, and ensure that payment is made within 30 days of receipt of goods and services.</p>	<p>A Purchase Request form or equivalent documentation is required for all purchases. All request forms or equivalent documentation are signed by the Division Chief or assigned representative.</p> <p>The Purchasing Agent will review and sign all purchase requests and purchase orders.</p> <p>All purchase orders are sequentially numbered.</p> <p>Specific bidding procedures must be followed for all discretionary purchases unless a sole or single source vendor can only meet the needs of OAG. Informal bidding occurs for all purchases between \$5,000 - \$15,000. Any single purchase greater than \$15,000 requires competitive bids to be obtained through a formal bidding process.</p> <p>Standard vouchers are reviewed and signed by the Director or Assistant Director of Budget and Fiscal Management.</p> <p>All vouchers are sequentially numbered and are tracked by O.S.C to prevent duplicate payments</p> <p>A tracking system is in place to ensure payments are made within the required time period.</p>
	<p>Monitor guidelines issued by State agencies (i.e. OSC, DOB) and directives of the Attorney General to ensure OAG is functioning as intended.</p>	<p>A file of guidelines issued by State agencies and directives of the Attorney General is maintained and monitored.</p> <p>Administrative memoranda, addressing significant guidelines and directives, are approved and issued.</p>
<p>Organized Crime Task Force / Finance  Albany</p>	<p>Ensure proper authorization and completeness of confidential disbursements.</p>	<p>Requests for advance payments from the Confidential Fund bank account are authorized by using a Request for Funds form and telephone bill payments are authorized by using a Telephone Payment Request Form.</p> <p>Requests exceeding \$5,000 require the written authorization of the Deputy Attorney General or his/her designee. Requests exceeding \$10,000 require written authorization of the Division Head or his/her designee.</p>
		<p>Requester acknowledges receipt of funds by signing the Request for Funds form under the Fund Processing and Receipt section. For funds requested for a cooperator, requester must sign a Receipt for Funds for Cooperation form when funds are received.</p> <p>Requester submits a Closeout for Fund Advance or Interim reports with receipts, required documentation and any funds not expended.</p> <p>The Chief Investigator reviews and initials Closeout for Fund Advance.</p> <p>The Confidential Fund is reconciled on a monthly basis.</p>

**PRELIMINARY DRAFT  
FOR DISCUSSION PURPOSES ONLY**

Bureau	Significant Objectives	Relevant Controls
	<p>Process cash receipts and disbursements from alleged criminal sources.</p>	<p>Access to seized cash is limited by entering cash into the evidence vault using a Property Form. The Property Form is signed by the investigator who seized the money.</p> <p>The investigator who deposits the money into the Lawyers Escrow Account forwards the validated deposit slip and a memo specifying the subject the asset was confiscated from, case # and amount of deposit to OCTF Confidential Staff</p> <p>Once it is determined how seized funds are to be distributed, the attorney handling the case will send a memo along with a copy of the court order to OCTF Confidential Staff with instructions to cut a check.</p> <p>Confidential staff then completes a request for payments form that is forwarded to OSC along with the court order. OSC forwards the funds back to confidential staff who deposit the funds into the lawyers escrow account. The Confidential staff will cut the check(s) in accordance with the instructions forwarded on the memo.</p> <p>Authorized signers are the Director of Financial Administration, the Assistant Director of Financial Administration, and two confidential staff members.</p> <p>A "Monies Received Report" (AC 909) is completed, approved by the Director of Financial Administration and logged into the manual logbook for all forfeited monies. The check and a copy of the AC 909 are then forwarded to the OSC.</p> <p>The Lawyer's Escrow Account is reconciled monthly by the OCTF Finance Controller.</p>
<p>Civil Rights Bureau New York City</p>	<p>Enforce Civil Rights law under State and Federal law through investigation, litigation, monitoring and settlement in the courts.</p>	<p>Complaints are logged and appropriate action is determined.</p> <p>Case initiation is approved by the Bureau Chief.</p> <p>Litigation documentation is reviewed by the Bureau Chief and, when case is significant, by the Division Chief.</p> <p>Results of monitoring are documented.</p> <p>Case resolution is approved by the Bureau Chief and Division Chief.</p> <p>A weekly status report of significant matters is prepared for the Division Chief and the Attorney General.</p>
<p>Criminal Prosecutions New York City</p>	<p>Investigate criminal matters referred to the Attorney General and enforce criminal statutes within the jurisdiction of OAG including liaison with other Bureaus involved in criminal cases and the law enforcement community.</p>	<p>Complaints are logged and appropriate action is determined.</p> <p>Case initiation and attorney assignment is approved by either the Deputy Bureau Chief (NYC or Albany) or as to cases within a particular section, by a section chief.</p> <p>A tracking system is in place to monitor case status.</p>

**PRELIMINARY DRAFT  
FOR DISCUSSION PURPOSES ONLY**

Bureau	Significant Objectives	Relevant Controls
		<p>Approval of the Bureau Chief or Deputy Bureau Chief is required to submit charges to a grand jury.</p> <p>NYSPIN Warrant and Criminal History Request forms are signed by either the Bureau Chief, Deputy Bureau Chief or the Section Chief.</p> <p>Cases may not be disposed of by plea negotiation without approval of the Bureau Chief.</p> <p>The Bureau Chief meets with attorneys periodically to discuss the status of cases.</p>
<p>Medicaid Fraud Control Unit New York City</p>	<p>Ensure proper authorization and completeness of confidential disbursements.</p>	<p>Requests for Advances from Confidential Bank Account authorized by completing Request for Funds form with Bureau Chief or designee approval.</p> <p>Confidential Fund is reconciled monthly by a disinterested party.</p> <p>Sequential log is maintained of Requests by fund custodian.</p> <p>A "Receipt for Funds" form is completed for all undercover payments.</p> <p>"Close Out" forms for Advances are prepared and certified by supervisors.</p>
	<p>Process cash receipts from alleged criminal sources.</p>	<p>Seized cash is processed by the investigator. The cash is inventoried and secured in a sealed, clear evidence bag. The cash and sealed bag are logged into an evidence log, assigned an evidence number, and placed into a locked file cabinet located inside a locked evidence room. Cash remains secured in the evidence room until the investigator removes it for court purposes by properly signing cash out of evidence logbook. Cash is generally maintained in the evidence room until the case is disposed of. Thereafter, cash is properly removed from the property room and hand carried to the finance office, whereby a receipt is issued to the investigator. The cash is deposited into the appropriate account for processing.</p>



**PRELIMINARY DRAFT  
FOR DISCUSSION PURPOSES ONLY**

Bureau	Significant Objectives	Relevant Controls
	<p>Prosecute on behalf of the State, crimes related to fraud in the Medicaid Program and patient abuse.</p>	<p>Cases which, in the opinion of the appropriate Regional Director of Bureau/Division Chief, have been determined to have prosecutorial potential, shall be opened, i.e., assigned to an attorney, auditor, and Investigator within the Region and/or Bureau/Division for legal analysis, audit and investigation.</p> <p>The Supervising Investigator for the Region or Bureau/Division, shall assign an investigator to each opened case, who shall cause a memorandum to be issued indicating that the case has been opened.</p> <p>The Supervising Investigator assigns a number to the case and enters it into a log.</p> <p>Litigation documentation is maintained by the Central Files Unit.</p> <p>Cases are reviewed by a senior attorney.</p> <p>Electronic surveillance related documents and materials are maintained in locked facilities by the Tech Room Senior Investigator, who also maintains a log of the documents and materials.</p>
	<p>Ensure proper control and safeguarding of funds.</p>	<p>All awards are set up in Account Folders and Trial Balance File - based on forms received from Special Assistant Attorney(s) General (SAAGS).</p> <p>Finance Aide processes checks, updates Account file and prepares AC909.</p> <p>Second Finance Aide reviews and signs off all forms.</p> <p>Finance Assistant signs AC909.</p> <p>AC909 forms are posted to computer file.</p> <p>Month end Trial Balances and reconciliations are prepared and sent to Executive management and SAAGS</p> <p>AC909 sent to Treasury are checked to J10s and LED 40</p> <p>No accounts can be written off unless approved in writing by the Deputy Attorney General.</p>
<p>Real Estate Financing New York City</p>	<p>Provide information to the public through requests or published literature. Protect the public from fraud with respect to real estate offerings including:</p> <ul style="list-style-type: none"> <li>- co-operatives</li> <li>- condominiums</li> <li>- syndications</li> <li>- homeowners associations</li> <li>- timesharing</li> </ul>	<p>The Attorney General and the Bureau Chief issue policy statements.</p> <p>Comparisons are made with rules, regulations and a checklist to ensure full disclosure in the offering document.</p> <p>The reviewing attorney makes comments on the proposed offering document.</p>

**PRELIMINARY DRAFT  
FOR DISCUSSION PURPOSES ONLY**

Bureau	Significant Objectives	Relevant Controls
	Investigate complaints and where appropriate, initiate civil or criminal actions.	Complaints are logged and appropriate action is determined.  Case initiation is approved by the Division Chief.  A weekly status report of significant matters is prepared for the Division Head.
	Defend the Bureau in all lawsuits brought against it.	Complaints are logged and appropriate action is determined by Deputy Bureau Chief.
	Process court settlements and filing fees.	If applicable, cash settlements and filing fees are administered by the Bureau of Budget and Fiscal Management.
Budget and Fiscal Management  New York City	Handle all deposits of cash receipts for various collections made by the NYC Bureaus.	Segregation of duties exist between receipt and restrictive endorsement (in Bureaus) and deposit and reconciliation functions (in Administration).  Bank accounts are reconciled monthly by the office supervisor.
Charities  New York City	Review various activities of not-for-profit corporations including: - filing of amendments of certificates of incorporation - sales of property (only sales of all or substantially all assets of charitable organizations, and all sales of real property by certain religious organizations) - mergers - dissolutions of corporations. - Professional fund raisers	A log of certificates and amendments is maintained to record receipt and return of certificates.  Sales, mergers and dissolutions are reviewed by the attorney assigned.
	Fulfill the statutory oversight role of the AG with regard to charitable organizations and assets by requiring registration and annual reporting (i.e., 990) of the following with OAG: - charities - foundations - trusts and estates with charitable interests	Registrations are logged  Annual reports and filing fees are logged  Delinquent annual report filings are monitored.
	Protect the interests of the public as the ultimate beneficiaries of all charitable gifts and bequests contained in wills and trust agreements.	Cases are logged and assigned to the appropriate attorney.  Fiduciary accounting is reviewed by an Assistant Attorney General before an approved distribution is made from an estate that contains a gift to a charitable organization.

**PRELIMINARY DRAFT  
FOR DISCUSSION PURPOSES ONLY**

Bureau	Significant Objectives	Relevant Controls
	Investigate complaints and where appropriate institute investigations and litigation..	Complaints are logged and appropriate action is determined. If cases are initiated, they are recorded in a case log.  Documentation is accumulated. Significant matters are reported to the Division Chief in weekly reports.
	Protect the State's interest in the Abandoned Property Fund by representing the State Comptroller in actions seeking the withdrawal of abandoned property from the State Comptroller's control and by participating in cases involving abandoned property under the public administrator's control.	Cases are logged and assigned to the appropriate attorney.  For withdrawal cases, the attorney appears and files an answer. For public administrator cases, the attorney appears and reviews the accounting.
	Process court settlements resulting from litigation.	Financial effects of settlements are administered by the Finance Office/Division of Administration.
Investor Protection and Securities  New York City	Protect the public from fraud by regulating sales of investment securities and commodities in NYS and requiring registration of the following with OAG: - brokers - dealers - salesmen - investment advisors - issuers of securities	Registration documents are reviewed, comparing the filing with rules and regulations to ensure full disclosure (in-house or by the Central Registration Depository for National Association of Securities Dealers members).
	Where appropriate, undertake investigations, and civil litigation.	Complaints are logged and appropriate action is determined.  Case initiation takes place, litigation documentation is accumulated and case dispositions are approved by the Bureau Chief.  A weekly status report of significant matters is prepared for the Division Chief and the Attorney General's Executive Staff.
	Enforce laws regulating the following: - financing of theatrical ventures - sale of franchises - corporate takeovers	Registration documents are reviewed, comparing the filing with rules and regulations to ensure full disclosure.
	Process court settlements and filing fees.	If applicable, cash settlements and filing fees are administered by the Division of Administration.

**PRELIMINARY DRAFT  
FOR DISCUSSION PURPOSES ONLY**

Bureau	Significant Objectives	Relevant Controls
Environmental Protection  New York City	Initiate affirmative litigation on behalf of the State to protect the public health and safety from the threat of - air and water pollution - acid rain - hazardous wastes  Defend State agencies when their regulatory actions regarding environmental matters are challenged.  Defend State agencies accused of violating environmental statutes or regulations.  Process court settlements.	Communication is established between the Department of Environmental Conservation (DEC) and Bureau Chief to identify and initiate a formal complaint.  Complaints are logged and attorney assignment is determined.  For non-agency referrals, case initiation is approved by the Bureau Chief and for all cases, including cases defending State agencies, file documentation and referral letters are maintained.  Calendars are maintained to keep track of cases. Maintain full case reports, updated regularly, tracking cases in progress.  Weekly status reports of significant matters are prepared for the Bureau Chief and the Deputy Attorney General.  All cash settlements are administered by the Finance Office/Division of Administration.
Consumer Frauds and Protection  New York City	Protect the consumer from fraudulent, misleading, deceptive and illegal business practices and, where appropriate, undertake mediation efforts or initiate investigations and seek an assurance of discontinuance, institute litigation or obtain a consent judgement. Represent the public interest in utility rate, energy cost and policy matters.	Complaints are logged and reviewed to determine appropriate action.  Monthly and quarterly reports are produced detailing progress of complaints.  Case initiation takes place and litigation documentation is accumulated and reviewed by the Bureau Chief.  All pending briefs and other legal documents are reviewed by the Bureau Chief or Deputy Bureau Chief.  A bi-weekly meeting is held to discuss upcoming and significant matters.  Assurance of discontinuance or consent judgement is approved by the Bureau Chief.  A weekly report of significant matters is prepared for the Division Head and the Attorney General.
	Administer the State's Lemon Law Program	The establishment of rules and regulations is promulgated by the Attorney General.  An Administrator is appointed.  Arbitration applications are reviewed and submitted to the Administrator.  An annual report with arbitration statistics is prepared.
	Collect restitution and damages from violators	The Compliance Officer obtains settlement forms from case attorney and logs collections.  If applicable, settlements are administered by Division of Administration.

**PRELIMINARY DRAFT  
FOR DISCUSSION PURPOSES ONLY**

<b>Bureau</b>	<b>Significant Objectives</b>	<b>Relevant Controls</b>
<p>Antitrust New York City</p>	<p>Represent the State and its citizens in State and Federal antitrust litigation, enforce the State and Federal Antitrust Laws against restraints of trade, and promote competition and free enterprise within New York State.</p>	<p>Complaints and other enforcement actions are logged and reviewed to determine appropriate action.</p> <p>Case initiation is performed, litigation documentation is accumulated, and settlements are reviewed by the Bureau Chief.</p> <p>A semiannual status report of significant matters is prepared for the Division Chief and the Attorney General.</p>
<p>Litigation New York City</p>	<p>Prosecute and defend actions on behalf of the State, its officers and agencies, in virtually all substantive areas of law.</p>	<p>Cases are logged and appropriate action is determined.</p> <p>Litigation documentation is accumulated and settlements are approved by:</p> <p>Client agency, section chief, bureau chief, and where appropriate, division management for all cases</p>
<p>Labor New York City</p>	<p>Defends civil action against Commissioner of Labor and brings civil and/or criminal action against employers for violations of State Labor and Workers' Compensation Laws including:</p> <ul style="list-style-type: none"> <li>- failure to pay minimum wage or fringe benefits</li> <li>- failure to carry Workers' Comp or disability insurance</li> <li>- failure to comply with labor laws</li> <li>- bankruptcy proceedings</li> <li>- Collect civil judgments against employers and employees.</li> <li>- Represent the Workers' Compensation Board and the Unemployment Insurance Appeal Board when its decisions are appealed.</li> </ul>	<p>The complaint or proceeding is logged and appropriate action is determined.</p> <p>Case initiation is approved by the Bureau Chief.</p> <p>Formal procedures exist to address complaints and handle cases, including review of status of cases by the Division Chief with the Bureau Chief on a periodic basis.</p> <p>Financial effects of judgments are administered by the Finance Office/Division of Administration.</p> <p>Review procedures exist to address various types of appeals. (i.e., red folders, mandatory and record lists).</p>

**STATE OF NEW YORK  
OFFICE OF THE ATTORNEY GENERAL**

MEMORANDUM

**TO:** All Budget & Fiscal Management Staff  
**FROM:** Daniel J. Dustin ~~DJA~~  
**DATE:** October 26, 1998  
**RE:** 1998 Internal Control Audit

The Office of the Attorney General is required to undergo a biennial audit of its internal controls in accordance with the New York State Governmental Accountability, Audit and Internal Control Act of 1987. The accounting firm of PricewaterhouseCoopers was awarded the contract to perform this year's audit through the competitive bidding process.

The audit will begin on Monday, November 2 and will conclude on Friday, November 13. The auditors are scheduled to be in Budget and Fiscal Management on Monday, November 2, at 9:00 a.m. to review internal control documentation. They will conclude their audit of Budget & Fiscal Management by testing files and reconciliations during the week of November 9.

Please let me know if you have any questions.

FOR ALL BFMB  
STAFF

The Office of the Attorney General is required to undergo a biennial audit of its internal controls in accordance with the New York State Governmental Accountability, Audit and Internal Control Act of 1987. The accounting firm of PricewaterhouseCoopers was awarded the contract to perform this year's audit through the competitive bidding process.

The audit for Budget and Fiscal Management Bureau is scheduled for Monday, November 2,



The audit will begin on Monday, November 2 and will conclude on Friday, November 13. The auditors are scheduled to be in Budget and Fiscal Management on Monday, November 2 at 9:00 a.m. to review internal control documentation. They will conclude their audit of BFMB by testing files and reconciliations during the week of November 9.

Please let me know if you have any questions.

Please put  
on Dept. of Law  
letter head

February 8, 1999

PricewaterhouseCoopers LLP  
80 State Street  
Albany, New York 12207

Dear Sirs:

In connection with your examination of management's assertion dated November 13, 1998 that, except for the material weakness described in the fifth paragraph of this letter, the New York State Department of Law's (Office of the Attorney General - "OAG") internal accounting and administrative controls maintained during the period April 1, 1998 through November 13, 1998, are adequate to meet the criteria established by the State of New York, as set forth in the "New York State Governmental Accountability, Audit and Internal Control Act of 1987" and the significant objectives and relevant internal accounting and administrative controls described in the Appendix to this letter, we confirm, to the best of our knowledge and belief, the following representations made to you during your examination.

The OAG is responsible for establishing and maintaining internal controls consisting of a system of internal accounting and administrative controls, the objectives of which are to provide management with reasonable, but not absolute assurance that assets are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and are recorded properly.

The OAG has evaluated the effectiveness of its internal accounting and administrative controls in effect during the period April 1, 1998 through November 13, 1998 in relation to criteria for effective internal control as set forth in the "New York State Governmental Accountability, Audit and Internal Control Act of 1987" and the significant objectives and relevant internal accounting and administrative controls described in the Appendix to this letter. Based on this evaluation, the OAG believes that, for the period April 1, 1998 through November 13, 1998, its internal accounting and administrative controls in effect meet the criteria.

The OAG has made available to you all the financial and administrative records and related data relevant to the attached Appendix.



We have no deficiencies in the design or operation of the internal controls which could adversely affect the OAG's ability to record, process, summarize and report data.

To the best of our knowledge, there have been no:

- ♦ Irregularities involving management or employees who have significant roles in the OAG's internal accounting and administrative controls;
- ♦ Irregularities involving other employees that could have a material or significant effect on the OAG's internal accounting and administrative controls;
- ♦ Communications from regulatory agencies concerning non-compliance with, or deficiencies in, financial reporting practices or other matters that could have a material or significant effect on the OAG's internal accounting and administrative controls;
- ♦ Material weaknesses in the OAG's internal accounting and administrative controls, except that cash and related accounting records may not be appropriately safeguarded due to inadequate segregation of duties between the cash receipts (Significant Objective: Process cash receipts from bureaus) and disbursement functions (Significant Objective: Uphold fiduciary responsibility over funds held for claimants of defrauders).

To the best of our knowledge, there have been no changes in the OAG's internal controls including internal accounting and administrative controls, as well as corrective actions taken by management, and no events have occurred subsequent to November 13, 1998 that might significantly affect the OAG's internal accounting and administrative controls.

It is the understanding of the OAG that your examination was made in accordance with standards established by the American Institute of Certified Public Accountants, *Government Auditing Standards* issued by the Comptroller General of the United States and as required by the "New York State Governmental Accountability, Audit and Internal Control Act of 1987". Therefore, your study was designed primarily for the purpose of reporting on management's assertion that the OAG's internal accounting and administrative controls maintained during the period April 1, 1998 through November 13, 1998, are adequate to meet the criteria established by the State of New York, as set forth in the "New York State Governmental Accountability, Audit and Internal Control Act of 1987" and the significant objectives and relevant internal accounting and administrative controls described in the Appendix to this letter and that your tests of the accounting and administrative records and other procedures were limited to those which you considered necessary for that purpose.

Sincerely,

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Dennis C. Vacco  
New York State Attorney General

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Daniel J. Dustin  
Internal Audit Officer and Chief Accountant

PRELIMINARY DRAFT  
FOR DISCUSSION PURPOSES ONLY

RECEIVED  
NEW YORK STATE DEPT. OF LAW  
MANAGEMENT OFFICE  
99 FEB 11 AM 10:32

March 13, 1999

Mr. Richard E. Warnke  
Deputy for Administration  
New York State Department of Law

This letter should be read in conjunction with management's assertion included in its representation letter dated November 13, 1998 that, except for its material weakness described therein, the New York State Department of Law's (Office of the Attorney General – "OAG") internal accounting and administrative controls maintained during the period April 1, 1998 through November 13, 1998, are adequate to meet the criteria established by the State of New York, as set forth in the "New York State Governmental Accountability, Audit and Internal Control Act of 1987" and the significant objectives and relevant internal accounting and administrative controls described in the Appendix to the representation letter. We noted certain matters involving the internal control structure and its operation, and are submitting for your consideration related recommendations designed to help the OAG make improvements and achieve operational efficiencies. Our comments reflect our desire to be of continuing assistance to the OAG.

The accompanying observations and recommendations are intended solely for the information and use of the OAG.

We appreciate the opportunity to have been of service to you and the OAG. Should you have any questions about our observations and recommendations, this letter, or other matters, please contact us at your convenience.

Very truly yours,

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## Observations and Recommendations

### BUDGET AND FISCAL MANAGEMENT - ALBANY

#### Segregation of Duties over Cash Receipt and Disbursement Functions

*Statement of Condition:* The individual receiving incoming checks determines which bank account the checks relate to and applies the appropriate restrictive endorsement to the checks. This person also logs the incoming checks into a spreadsheet and prepares the deposit. The same individual who writes checks, has access to the check stock as well as the authorized signature. This individual also has the authority to request a withdrawal of funds from the Short Term Investment Pool.

*Criteria:* There should be segregation of duties between custody, authorization and recordkeeping of cash.

*(Potential) Effect:* Misappropriation of assets.

*Cause:* Inadequate staffing.

*Recommendation:* We recommend segregation of duties over the cash receipt and disbursement functions be established.

#### Receiving Reports not dated or signed

*Statement of Condition:* Two receiving reports were not signed or dated.

*Criteria:* Receiving reports should be signed and dated to show evidence of the date the goods/services were received and establish responsibility for receipt.

*(Potential) Effect:* Inability to determine whether or not goods were received and by whom.

*Cause:* Not determinable

*Recommendation:* We recommend that the receiving reports be dated and signed.

#### Late Payment of Invoices

*Statement of Condition:* All invoices are not paid by OSC in accordance with the State's policy of payment within 30 days of MIR date (Merchandise/Invoice/Receive date).

*Criteria:* The Bureau is subject to the New York State prompt payment law which mandates that all invoices are to be paid within 30 days.

*(Potential) Effect:* The Bureau will incur interest charges on past due invoices.

*Cause:* Not determinable

*Recommendation:* We recommend that all payments be made within 30 days to be in compliance with New York State law.

#### Deposit Slip Verification

*Statement of Condition:* Deposit slips received by the Office of Budget and Fiscal Management from Civil Recoveries are not initialed when verified.

*Criteria:* There should be evidence that the individual from the Office of Budget and Fiscal Management has verified the deposit slip totals.

*(Potential) Effect:* Deposit slips may be overlooked and not adequately verified.

*Cause:* Not determinable

*Recommendation:* We recommend that the individual from the Office of Budget and Fiscal Management initial the deposit slip after the verification has been performed to ensure that the process is performed and to prevent deposits from being overlooked.

## HUMAN RESOURCES - ALBANY

### Review of Changes to PACER System

*Statement of Condition:* The PACER system does not generate a report showing the changes made to the system since the previous payroll period.

*Criteria:* The changes made to the PACER system should be monitored to ensure that accurate employee standing data are being processed.

*(Potential) Effect:* Inaccurate and/or incomplete employee data may be entered into the system, resulting in improper processing of payroll data.

*Cause:* PACER system does not generate such a report.

*Recommendation:* We recommend that the Office of the Attorney General work with the Pacer administrator to generate a report that will show changes made to certain significant fields (i.e. salary, deductions) and additions and deletions from the report. Although the Office of the State Comptroller monitors significant changes such as new hires and salary adjustments, it may be beneficial for the Bureau to monitor such changes.

## CIVIL RECOVERIES - ALBANY

### Post Dated Checks

*Statement of Condition:* The Civil Recoveries Bureau accepts post-dated checks.

*Criteria:* The Civil Recoveries Bureau should not accept post-dated checks.

*(Potential) Effect:* Acceptance of post dated checks results in the Bureau requiring additional procedures to ensure that the checks are deposited at the appropriate time. In addition, the debtor may not have adequate funds to cover the check in the future.

*Cause:* The Bureau's current policy is to allow the acceptance of post-dated checks.

*Recommendation:* We recommend that the Bureau not accept post-dated checks. To increase the effectiveness and efficiency of collections.

### Safe Log

*Statement of Condition:* The Civil Recoveries Bureau keeps checks in its safe overnight. These checks include post dated checks and checks that need further review. There is currently no log to indicate what is included in the safe overnight.

*Criteria:* The Civil Recoveries Bureau should maintain a log of items included in the safe.

*(Potential) Effect:* Misappropriation of assets

*Cause:* Not determinable.

*Recommendation:* If items must be maintained overnight we recommend that the Bureau maintain a log of items left in the safe overnight.

## ADMINISTRATIVE OPERATIONS AND SERVICES MANAGEMENT - ALBANY

**PRELIMINARY DRAFT  
FOR DISCUSSION PURPOSES ONLY**

### Fixed Asset Inventory Updates

*Statement of Condition:* The active inventory log is not updated in a timely manner. Legal technology is shipping items out of the warehouse without notifying the supervisor of Administrative Operations and Services Management (AOSM). Therefore, the active inventory log that the supervisor maintains, may not contain current information.

*Criteria:* The active inventory log should contain up to date information on the status of each active inventory item.

*(Potential) Effect:* The active inventory items are difficult to locate and track.

*Cause:* Lack of communication between Legal Technology and AOSM

*Recommendation:* We recommend that Legal Technology inform AOSM immediately of any updates regarding active inventory.

## INVESTOR PROTECTION AND SECURITIES – NEW YORK CITY

### Review of Complaints

*Statement of Condition:* Customer complaints received by the Investor Protection and Securities Bureau are reviewed by the Bureau chief, but this review is not evidenced.

*Criteria:* There should be evidence that the Bureau Chief has reviewed the customer complaint.

*(Potential) Effect:* Customer complaints may be overlooked and not adequately resolved.

*Cause:* Not determinable

*Recommendation:* We recommend that the Bureau Chief initial the customer complaint after the review has been performed to ensure that the process is performed and to prevent complaints from being overlooked.

## CHARITIES – NEW YORK CITY

### Delinquency Letters

*Statement of Condition:* The computer system used by the Charities Bureau cannot automatically generate delinquency letters, when the required documents have not been received by the deadline.

*Criteria:* This process should be automated.

*(Potential) Effect:* Since there are more than 35,000 files, this task can not be efficiently accomplished without adequate software support.

*Cause:* When the system was installed this feature was deleted.

*Recommendation:* We recommend that the Bureau discuss with its software technicians the possibility of reinstalling this functionality.

# PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers LLP  
Suite Street Centre  
80 State Street  
Albany NY 12207  
Telephone: (518) 462 2030  
Facsimile: (518) 427 4499  
Direct fax: 518-427-4499

## Fax cover sheet

To: Mark Burkbaum

Company:

Addressee fax No.: 518-474-0714

From: Mark Chiplock

Return fax number: 518-427-4499

Date: 12-23-98

No. of pages:  
(incl. this page) 13

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PRELIMINARY REPORT  
FOR DISCUSSION PURPOSES ONLY

**NEW YORK STATE DEPARTMENT OF LAW**

**REPORT OF INDEPENDENT ACCOUNTANTS**

**For the Period April 1, 1998 through November 13, 1998**



**PRELIMINARY DRAFT  
FOR DISCUSSION PURPOSES ONLY**

Bureau	Significant Objectives	Relevant Controls
Civil Recoveries Albany	Collect monies owed to the State from delinquent accounts, unpaid student loans, damages to State property, fines and other penalties via the Civil Prosecutions Unit.	Segregation of duties exists between receipt and restrictive endorsement (in mailroom), preparation of receipts log (in Civil Recoveries), and deposit of collections (in Finance).
Human Resources Albany	Ensure Civil Service Laws and Rules and Regulations are observed and complied with regarding staffing of all competitive positions and the classification of all positions.	<p>A request to fill must follow the agency prescribed procedure of approval by Bureau Chief, Division Chief, the Office of Budget and Fiscal Management and the First Deputy of the Attorney General.</p> <p>A position represented by the CSEA negotiated contract must be posted for 10 days, as specified in the contract.</p> <p>When appropriate competitive class candidates must be selected from eligible lists and approved by Civil Service.</p> <p>Exempt hires must be approved by the Attorney General.</p>
	Certify Time and Attendance	<p>Review time and attendance records to ensure that they are completed correctly, signed and certified by both employee and supervisor.</p> <p>Ensure that time records are less than two pay periods in arrears.</p>
Administrative Operations and Services Management Albany	Fixed asset and Equipment Inventory	<p>Responsible for distribution of pre-numbered decals applied to all significant purchases.</p> <p>Maintain computerized list of equipment by decal number and location.</p> <p>Physical inventory of fixed assets is performed periodically.</p> <p>Supplies requisitions are approved and distributed through Albany Statewide (except NYC)</p>
Contract Approval Unit Albany	Review and process State contracts and fiduciary bonds via the Contract Approval Unit.	A Contract Approval Unit exists to perform the review of a contract, and OSC will not approve contracts prior to Attorney General approval.
State Counsel Albany	Process orders, judgments and settlement stipulations to reimburse State officers and employees who are sued personally for carrying out their official duties.	Settlements are approved by the Attorney General.
Real Property Albany	Provide legal assistance to State agencies in connection with the acquisition and disposition of public land.	A standard operating procedure manual is maintained.

**PRELIMINARY DRAFT  
FOR DISCUSSION PURPOSES ONLY**

Bureau	Significant Objectives	Relevant Controls
	Provide representation to the State in disputes over title, mortgage foreclosure, tax liens, appropriation claims, and other real estate related litigation	Cases are assigned to attorneys by the Section Chief and reports of title are approved by the Bureau Chief or the Deputy Bureau Chief.  A weekly status report of significant matters is prepared for the Attorney General's Executive Committee.
Claims Albany	Defend the State against actions in the Court of Claims.	Claims are logged and appropriate action is determined.  The Bureau Chief reviews all new claims.  A tracking system is in place to monitor various stages of claims processing.  Case status reports and significant case reports are prepared periodically and distributed to the Section and Bureau Chiefs.  Case settlements are approved by Section Chiefs, Deputy Bureau Chief, and depending on the amount, the Assistant Division Chief, Division Chief and First Assistant Attorney General - Attorney General.  Recommendations on appeal are approved by Deputy Bureau Chief, Bureau Chief and Deputy Solicitor General.
Appeals and Opinions Albany	Responsible for the oversight of all appellate litigation in State and Federal courts.	Appeal recommendations are logged and decisions to appeal or not to appeal cases are made by the Solicitor General, the Deputy Solicitor General or in designated areas, by an Assistant Attorney General.
	Preparation of opinions issued by the Attorney General.	All formal opinions are reviewed and approved by the Attorney General after review by the Solicitor General and the Deputy Solicitor General. Informal opinions are reviewed and approved by the Solicitor General and the Deputy Solicitor General.
	Act as Bond Counsel to the State, serve as general counsel to the Local Government Assistance Corporation, and prepare litigation opinions for official statements, including identification of significant pending or threatened litigation and unasserted claims and assessments.	Attorney and paralegal staff is assigned, with written policies and procedures, to perform these duties.
Litigation Albany	Prosecute and defend actions on behalf of the State, its officers and agencies, in virtually all-substantive areas of law.	Cases are logged and appropriate action is determined.  The Bureau Chief reviews all significant new cases and assigns the case to an attorney or a section chief.  Case status reports and significant case reports are prepared periodically and distributed to the Section and Bureau Chiefs.  Settlements are approved by the client agency, section chief, bureau chief, and where appropriate, division management.

**PRELIMINARY DRAFT  
FOR DISCUSSION PURPOSES ONLY**

Bureau	Significant Objectives	Relevant Controls
Budget and Fiscal Management Albany	Timely and accurate processing of Office of the Attorney General (OAG) payroll information and distribution of paychecks.	<p>Segregation of duties between Payroll and Personnel functions.</p> <p>Form PR76; the transmittal form that accompanies the payroll information is reviewed and signed by one of the following:</p> <ul style="list-style-type: none"> <li>- Director of Budget and Fiscal Management.</li> <li>- Assistant Director of Budget and Fiscal Management</li> </ul> <p>Payroll checks in the Albany and New York City offices are claimed by designated employee from each Bureau, who must sign for the checks. For Regional Offices, a transmittal is forwarded to the office and acknowledged.</p>
	Process cash receipts from Bureaus	<p>Form AC909. Report of Monies Received is approved by the Director of Budget and Fiscal Management or assistant Director of Budget and Fiscal Management.</p> <p>Monthly bank reconciliations are prepared and reviewed.</p> <p>Preparation and submission of annual "Sole Custody Fund/Account Report" to Comptroller; approved by Director of Budget and Fiscal Management.</p>
	Uphold fiduciary responsibility over funds held for claimants of defrauders.	<p>The request for withdrawal of funds must be submitted by the Director of Budget and Fiscal Management, or designee to the Office of the State Comptroller (OSC) to obtain a release of funds from escrow. The amount of release is approved by the Director.</p> <p>Segregation of duties exists between check signing and check distribution functions.</p>
	Monitor current expenditures.	Expenditure levels are reported quarterly by the Assistant Director of Budget and Fiscal Management.
	<p>Assess the fiscal requirements of OAG and submit an annual budget to Division of the Budget (DOB).</p> <p>Enter into contracts with experts to provide assistance in litigation.</p>	<p>The budget is reviewed by the Director of Budget and Fiscal Management</p> <p>The Request for Expert Witness is approved by a Bureau Chief, Division Chief, the Office of Budget and Fiscal Management, and OSC where required.</p> <p>A retainer letter specifying the maximum amount that will be paid is signed by the Director or Assistant Director of Budget and Fiscal Management and submitted to the expert.</p>

**PRELIMINARY DRAFT  
FOR DISCUSSION PURPOSES ONLY**

Bureau	Significant Objectives	Relevant Controls
	<p>Serve as purchasing agency for OAG, initiate bidding process when appropriate, and ensure that payment is made within 30 days of receipt of goods and services.</p>	<p>A Purchase Request form or equivalent documentation is required for all purchases. All request forms or equivalent documentation are signed by the Division Chief or assigned representative.</p> <p>The Purchasing Agent will review and sign all purchase requests and purchase orders.</p> <p>All purchase orders are sequentially numbered.</p> <p>Specific bidding procedures must be followed for all discretionary purchases unless a sole or single source vendor can only meet the needs of OAG. Informal bidding occurs for all purchases between \$5,000 - \$15,000. Any single purchase greater than \$15,000 requires competitive bids to be obtained through a formal bidding process.</p> <p>Standard vouchers are reviewed and signed by the Director or Assistant Director of Budget and Fiscal Management.</p> <p>All vouchers are sequentially numbered and are tracked by O.S.C to prevent duplicate payments</p> <p>A tracking system is in place to ensure payments are made within the required time period.</p>
	<p>Monitor guidelines issued by State agencies (i.e. OSC, DOB) and directives of the Attorney General to ensure OAG is functioning as intended.</p>	<p>A file of guidelines issued by State agencies and directives of the Attorney General is maintained and monitored.</p> <p>Administrative memoranda, addressing significant guidelines and directives, are approved and issued.</p>
<p>Organized Crime Task Force / Finance  Albany</p>	<p>Ensure proper authorization and completeness of confidential disbursements.</p>	<p>Requests for advance payments from the Confidential Fund bank account are authorized by using a Request for Funds form and telephone bill payments are authorized by using a Telephone Payment Request Form.</p> <p>Requests exceeding \$5,000 require the written authorization of the Deputy Attorney General or his/her designee. Requests exceeding \$10,000 require written authorization of the Division Head or his/her designee.</p>
		<p>Requester acknowledges receipt of funds by signing the Request for Funds form under the Fund Processing and Receipt section. For funds requested for a cooperator, requester must sign a Receipt for Funds for Cooperation form when funds are received.</p> <p>Requester submits a Closeout for Fund Advance or Interim reports with receipts, required documentation and any funds not expended.</p> <p>The Chief Investigator reviews and initials Closeout for Fund Advance.</p> <p>The Confidential Fund is reconciled on a monthly basis.</p>

**PRELIMINARY DRAFT  
FOR DISCUSSION PURPOSES ONLY**

Bureau	Significant Objectives	Relevant Controls
	Process cash receipts and disbursements from alleged criminal sources.	<p>Access to seized cash is limited by entering cash into the evidence vault using a Property Form. The Property Form is signed by the investigator who seized the money.</p> <p>The Investigator who deposits the money into the Lawyers Escrow Account forwards the validated deposit slip and a memo specifying the subject the asset was confiscated from, case # and amount of deposit to OCTF Confidential Staff</p> <p>Once it is determined how seized funds are to be distributed, the attorney handling the case will send a memo along with a copy of the court order to OCTF Confidential Staff with instructions to cut a check.</p> <p>Confidential staff then completes a request for payments form that is forwarded to OSC along with the court order. OSC forwards the funds back to confidential staff who deposit the funds into the lawyers escrow account. The Confidential staff will cut the check(s) in accordance with the instructions forwarded on the memo.</p> <p>Authorized signers are the Director of Financial Administration, the Assistant Director of Financial Administration, and two confidential staff members.</p> <p>A "Monies Received Report" (AC 909) is completed, approved by the Director of Financial Administration and logged into the manual logbook for all forfeited monies. The check and a copy of the AC 909 are then forwarded to the OSC.</p> <p>The Lawyer's Escrow Account is reconciled monthly by the OCTF Finance Controller.</p>
Civil Rights Bureau New York City	Enforce Civil Rights law under State and Federal law through investigation, litigation, monitoring and settlement in the courts.	<p>Complaints are logged and appropriate action is determined.</p> <p>Case initiation is approved by the Bureau Chief.</p> <p>Litigation documentation is reviewed by the Bureau Chief and, when case is significant, by the Division Chief.</p> <p>Results of monitoring are documented.</p> <p>Case resolution is approved by the Bureau Chief and Division Chief.</p> <p>A weekly status report of significant matters is prepared for the Division Chief and the Attorney General.</p>
Criminal Prosecutions New York City	Investigate criminal matters referred to the Attorney General and enforce criminal statutes within the jurisdiction of OAG including liaison with other Bureaus involved in criminal cases and the law enforcement community.	<p>Complaints are logged and appropriate action is determined.</p> <p>Case initiation and attorney assignment is approved by either the Deputy Bureau Chief (NYC or Albany) or as to cases within a particular section, by a section chief.</p> <p>A tracking system is in place to monitor case status.</p>

**PRELIMINARY DRAFT  
FOR DISCUSSION PURPOSES ONLY**

Bureau	Significant Objectives	Relevant Controls
		<p>Approval of the Bureau Chief or Deputy Bureau Chief is required to submit charges to a grand jury.</p> <p>NYS PIN Warrant and Criminal History Request forms are signed by either the Bureau Chief, Deputy Bureau Chief or the Section Chief.</p> <p>Cases may not be disposed of by plea negotiation without approval of the Bureau Chief.</p> <p>The Bureau Chief meets with attorneys periodically to discuss the status of cases.</p>
<p>Medicaid Fraud Control Unit New York City</p>	<p>Ensure proper authorization and completeness of confidential disbursements.</p>	<p>Requests for Advances from Confidential Bank Account authorized by completing Request for Funds form with Bureau Chief or designee approval.</p> <p>Confidential Fund is reconciled monthly by a disinterested party.</p> <p>Sequential log is maintained of Requests by fund custodian.</p> <p>A "Receipt for Funds" form is completed for all undercover payments.</p> <p>"Close Out" forms for Advances are prepared and certified by supervisors.</p>
	<p>Process cash receipts from alleged criminal sources.</p>	<p>Seized cash is processed by the investigator. The cash is inventoried and secured in a sealed, clear evidence bag. The cash and sealed bag are logged into an evidence log, assigned an evidence number, and placed into a locked file cabinet located inside a locked evidence room. Cash remains secured in the evidence room until the investigator removes it for court purposes by properly signing cash out of evidence logbook. Cash is generally maintained in the evidence room until the case is disposed of. Thereafter, cash is properly removed from the property room and hand carried to the finance office, whereby a receipt is issued to the investigator. The cash is deposited into the appropriate account for processing.</p>

**PRELIMINARY DRAFT  
FOR DISCUSSION PURPOSES ONLY**

Bureau	Significant Objectives	Relevant Controls
	<p>Prosecute on behalf of the State, crimes related to fraud in the Medicaid Program and patient abuse.</p>	<p>Cases which, in the opinion of the appropriate Regional Director of Bureau/Division Chief, have been determined to have prosecutorial potential, shall be opened, i.e., assigned to an attorney, auditor, and Investigator within the Region and/or Bureau/Division for legal analysis, audit and investigation.</p> <p>The Supervising Investigator for the Region or Bureau/Division, shall assign an investigator to each opened case, who shall cause a memorandum to be issued indicating that the case has been opened.</p> <p>The Supervising Investigator assigns a number to the case and enters it into a log.</p> <p>Litigation documentation is maintained by the Central Files Unit.</p> <p>Cases are reviewed by a senior attorney.</p> <p>Electronic surveillance related documents and materials are maintained in locked facilities by the Tech Room Senior Investigator, who also maintains a log of the documents and materials.</p>
	<p>Ensure proper control and safeguarding of funds.</p>	<p>All awards are set up in Account Folders and Trial Balance File - based on forms received from Special Assistant Attorney(s) General (SAAGS).</p> <p>Finance Aide processes checks, updates Account file and prepares AC909.</p> <p>Second Finance Aide reviews and signs off all forms.</p> <p>Finance Assistant signs AC909.</p> <p>AC909 forms are posted to computer file.</p> <p>Month end Trial Balances and reconciliations are prepared and sent to Executive management and SAAGS</p> <p>AC909 sent to Treasury are checked to J10s and LED 40</p> <p>No accounts can be written off unless approved in writing by the Deputy Attorney General.</p>
<p>Real Estate Financing New York City</p>	<p>Provide information to the public through requests or published literature. Protect the public from fraud with respect to real estate offerings including:</p> <ul style="list-style-type: none"> <li>- co-operatives</li> <li>- condominiums</li> <li>- syndications</li> <li>- homeowners associations</li> <li>- timesharing</li> </ul>	<p>The Attorney General and the Bureau Chief issue policy statements.</p> <p>Comparisons are made with rules, regulations and a checklist to ensure full disclosure in the offering document.</p> <p>The reviewing attorney makes comments on the proposed offering document.</p>

**PRELIMINARY DRAFT  
FOR DISCUSSION PURPOSES ONLY**

Bureau	Significant Objectives	Relevant Controls
	Investigate complaints and where appropriate, initiate civil or criminal actions.	Complaints are logged and appropriate action is determined.  Case initiation is approved by the Division Chief.  A weekly status report of significant matters is prepared for the Division Head.
	Defend the Bureau in all lawsuits brought against it.	Complaints are logged and appropriate action is determined by Deputy Bureau Chief.
	Process court settlements and filing fees.	If applicable, cash settlements and filing fees are administered by the Bureau of Budget and Fiscal Management.
Budget and Fiscal Management  New York City	Handle all deposits of cash receipts for various collections made by the NYC Bureaus.	Segregation of duties exist between receipt and restrictive endorsement (in Bureaus) and deposit and reconciliation functions (in Administration).  Bank accounts are reconciled monthly by the office supervisor.
Charities  New York City	Review various activities of not-for-profit corporations including: <ul style="list-style-type: none"> <li>- filing of amendments of certificates of incorporation</li> <li>- sales of property (only sales of all or substantially all assets of charitable organizations, and all sales of real property by certain religious organizations)</li> <li>- mergers</li> <li>- dissolutions of corporations.</li> <li>- Professional fund raisers</li> </ul>	A log of certificates and amendments is maintained to record receipt and return of certificates.  Sales, mergers and dissolutions are reviewed by the attorney assigned.
	Fulfill the statutory oversight role of the AG with regard to charitable organizations and assets by requiring registration and annual reporting (i.e., 990) of the following with OAG: <ul style="list-style-type: none"> <li>- charities</li> <li>- foundations</li> <li>- trusts and estates with charitable interests</li> </ul>	Registrations are logged  Annual reports and filing fees are logged  Delinquent annual report filings are monitored.
	Protect the interests of the public as the ultimate beneficiaries of all charitable gifts and bequests contained in wills and trust agreements.	Cases are logged and assigned to the appropriate attorney.  Fiduciary accounting is reviewed by an Assistant Attorney General before an approved distribution is made from an estate that contains a gift to a charitable organization.



**PRELIMINARY DRAFT  
FOR DISCUSSION PURPOSES ONLY**

Bureau	Significant Objectives	Relevant Controls
	Investigate complaints and where appropriate institute investigations and litigation..	Complaints are logged and appropriate action is determined. If cases are initiated, they are recorded in a case log.  Documentation is accumulated. Significant matters are reported to the Division Chief in weekly reports.
	Protect the State's interest in the Abandoned Property Fund by representing the State Comptroller in actions seeking the withdrawal of abandoned property from the State Comptroller's control and by participating in cases involving abandoned property under the public administrator's control.	Cases are logged and assigned to the appropriate attorney.  For withdrawal cases, the attorney appears and files an answer. For public administrator cases, the attorney appears and reviews the accounting.
	Process court settlements resulting from litigation.	Financial effects of settlements are administered by the Finance Office/Division of Administration.
Investor Protection and Securities  New York City	Protect the public from fraud by regulating sales of investment securities and commodities in NYS and requiring registration of the following with OAG: - brokers - dealers - salesmen - investment advisors - issuers of securities	Registration documents are reviewed, comparing the filing with rules and regulations to ensure full disclosure (in-house or by the Central Registration Depository for National Association of Securities Dealers members).
	Where appropriate, undertake investigations, and civil litigation.	Complaints are logged and appropriate action is determined.  Case initiation takes place, litigation documentation is accumulated and case dispositions are approved by the Bureau Chief.  A weekly status report of significant matters is prepared for the Division Chief and the Attorney General's Executive Staff.
	Enforce laws regulating the following: - financing of theatrical ventures - sale of franchises - corporate takeovers	Registration documents are reviewed, comparing the filing with rules and regulations to ensure full disclosure.
	Process court settlements and filing fees.	If applicable, cash settlements and filing fees are administered by the Division of Administration.

**PRELIMINARY DRAFT  
FOR DISCUSSION PURPOSES ONLY**

Bureau	Significant Objectives	Relevant Controls
<p>Environmental Protection New York City</p>	<p>Initiate affirmative litigation on behalf of the State to protect the public health and safety from the threat of</p> <ul style="list-style-type: none"> <li>- air and water pollution</li> <li>- acid rain</li> <li>- hazardous wastes</li> </ul> <p>Defend State agencies when their regulatory actions regarding environmental matters are challenged.</p> <p>Defend State agencies accused of violating environmental statutes or regulations.</p> <p>Process court settlements.</p>	<p>Communication is established between the Department of Environmental Conservation (DEC) and Bureau Chief to identify and initiate a formal complaint.</p> <p>Complaints are logged and attorney assignment is determined.</p> <p>For non-agency referrals, case initiation is approved by the Bureau Chief and for all cases, including cases defending State agencies, file documentation and referral letters are maintained.</p> <p>Calendars are maintained to keep track of cases. Maintain full case reports, updated regularly, tracking cases in progress.</p> <p>Weekly status reports of significant matters are prepared for the Bureau Chief and the Deputy Attorney General.</p> <p>All cash settlements are administered by the Finance Office/Division of Administration.</p>
<p>Consumer Frauds and Protection New York City</p>	<p>Protect the consumer from fraudulent, misleading, deceptive and illegal business practices and, where appropriate, undertake mediation efforts or initiate investigations and seek an assurance of discontinuance, institute litigation or obtain a consent judgement. Represent the public interest in utility rate, energy cost and policy matters.</p>	<p>Complaints are logged and reviewed to determine appropriate action.</p> <p>Monthly and quarterly reports are produced detailing progress of complaints.</p> <p>Case initiation takes place and litigation documentation is accumulated and reviewed by the Bureau Chief.</p> <p>All pending briefs and other legal documents are reviewed by the Bureau Chief or Deputy Bureau Chief.</p> <p>A bi-weekly meeting is held to discuss upcoming and significant matters.</p> <p>Assurance of discontinuance or consent judgement is approved by the Bureau Chief.</p> <p>A weekly report of significant matters is prepared for the Division Head and the Attorney General.</p>
	<p>Administer the State's Lemon Law Program</p>	<p>The establishment of rules and regulations is promulgated by the Attorney General.</p> <p>An Administrator is appointed.</p> <p>Arbitration applications are reviewed and submitted to the Administrator.</p> <p>An annual report with arbitration statistics is prepared.</p>
	<p>Collect restitution and damages from violators</p>	<p>The Compliance Officer obtains settlement forms from case attorney and logs collections.</p> <p>If applicable, settlements are administered by Division of Administration.</p>

**PRELIMINARY DRAFT  
FOR DISCUSSION PURPOSES ONLY**

Bureau	Significant Objectives	Relevant Controls
<p>Antitrust New York City</p>	<p>Represent the State and its citizens in State and Federal antitrust litigation, enforce the State and Federal Antitrust Laws against restraints of trade, and promote competition and free enterprise within New York State.</p>	<p>Complaints and other enforcement actions are logged and reviewed to determine appropriate action.</p> <p>Case initiation is performed, litigation documentation is accumulated, and settlements are reviewed by the Bureau Chief.</p> <p>A semiannual status report of significant matters is prepared for the Division Chief and the Attorney General.</p>
<p>Litigation New York City</p>	<p>Prosecute and defend actions on behalf of the State, its officers and agencies, in virtually all substantive areas of law.</p>	<p>Cases are logged and appropriate action is determined.</p> <p>Litigation documentation is accumulated and settlements are approved by:</p> <p>Client agency, section chief, bureau chief, and where appropriate, division management for all cases</p>
<p>Labor New York City</p>	<p>Defends civil action against Commissioner of Labor and brings civil and/or criminal action against employers for violations of State Labor and Workers' Compensation Laws including:</p> <ul style="list-style-type: none"> <li>- failure to pay minimum wage or fringe benefits</li> <li>- failure to carry Workers' Comp or disability insurance</li> <li>- failure to comply with labor laws</li> <li>- bankruptcy proceedings</li> <li>- Collect civil judgments against employers and employees.</li> <li>- Represent the Workers' Compensation Board and the Unemployment Insurance Appeal Board when its decisions are appealed.</li> </ul>	<p>The complaint or proceeding is logged and appropriate action is determined.</p> <p>Case initiation is approved by the Bureau Chief.</p> <p>Formal procedures exist to address complaints and handle cases, including review of status of cases by the Division Chief with the Bureau Chief on a periodic basis.</p> <p>Financial effects of judgments are administered by the Finance Office/Division of Administration.</p> <p>Review procedures exist to address various types of appeals. (i.e., red folders, mandatory and record lists).</p>

**From:** Joshua Carr  
**To:** House, Mary; Lovell, Sondra  
**Date:** 11/10/08 05:05PM  
**Subject:** Re: OSC Audit

Yes, I think I can find that.

Sondra, can you look in Cindy's files for the 2000 or 2001 Audit? I think it was by KPMG or PriceWaterhouse.

Joshua E. Carr  
Acting Director  
Budget and Fiscal Management Bureau  
Office of the Attorney General  
The Capitol  
Albany, New York 12224  
Office - (518) 474-7500  
Fax - (518) 474-0714  
Blackberry: (518) 469-6609  
joshcarr@vzw.blackberry.net

>>> Mary House 11/10/2008 5:02 PM >>>

I have followed up with A&O regarding our mail processing and whether this bureau could assume that responsibility in order to get our checks earlier in the day to insure timely deposit. Bill Collins advises that our current process is the result of a comptrollers audit. I recall an audit, but I'm not sure what the findings were or how specific the direction was for this process. Or, for that matter, whether we could substitute sufficient controls to allow a change in the process.

Do you have a file on the audit that could tell us what the OSC required with regard to check handling?

**From:** Joshua Carr  
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**Date:** 11/10/08 05:05PM  
**Subject:** Re: OSC Audit

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*file*



STATE OF NEW YORK  
OFFICE OF THE ATTORNEY GENERAL

ELIOT SPITZER  
Attorney General

DIVISION OF ADMINISTRATION  
BUREAU OF BUDGET AND FISCAL MANAGEMENT

June 27, 2003

Pricewaterhouse Coopers, LLP  
Richard E. Grant  
State Street Centre  
80 State Street  
Albany, NY 12207

RE: Contract # C101201  
NYS OAG Internal Control Audit

Dear Mr. Grant:

We are in receipt of your most recent invoice in the amount of \$3,171.00, which, pursuant to Appendix "B" of the above referenced contract, represents final payment of the full contract amount of \$66,000.00.

Having received the draft preliminary findings, we met with your staff on May 28, 2003 and provided them with our detailed comments on these preliminary findings. According to section 2.9 of the Request for Proposal, which was incorporated into the contract, subsequent to the aforementioned meeting and upon resolution of all open issues, your firm is required to furnish the final signed report within seven (7) working days. However, we have not heard anything more since that meeting.

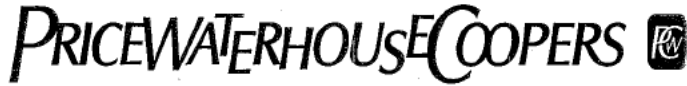
We received the first invoice for this contract in January 2002, and we are eager to conclude this matter. However, as the contract requires a final report which has not been provided, payment of the aforementioned invoice cannot be made until receipt of the final audit report. The invoice is, therefore, returned to you.

Your anticipated attention to this matter is greatly appreciated. Please contact me if you have any questions or require further information.

Sincerely,

Jean M. Woodard  
Director, Budget and Fiscal Management

JMW/fav



June 23, 2003

Invoice Number A908-001555-9

Ms. Jean Woodard  
Assistant Deputy for Administration  
The New York State Office of the Attorney General  
The Capitol  
Albany, NY 12224

INVOICE FOR SERVICES  
PricewaterhouseCoopers LLP  
P.O. Box 3026  
Boston, MA 02241-3026

Eighth progress billing in connection with our audit of internal controls as required by the New York State Governmental Accountability, Audit and Internal Control Act (see attached billing addendum).

Total Invoice

-----  
\$3,171.00  
=====

2003 JUN 24 PM 2:50

Contact: Richard E Grant 518-427-4420  
Engagement No. 160884-2237-00

**Payment Due Upon Receipt**

tax identification number 13-4008324

return this portion with your remittance

Ms. Jean Woodard  
Assistant Deputy for Administration  
The New York State Office of the Attor  
The Capitol  
Albany, NY 12224

June 23, 2003  
Invoice Number A908-001555-9  
Invoice Amount \$3,171.00

Amount Paid \_\_\_\_\_

**By Check Remit to:**  
PricewaterhouseCoopers LLP  
P.O. Box 3026  
Boston, MA 02241-3026

**By Wire Transfer Remit to:**  
ABA # [REDACTED]  
Citibank, NA  
PricewaterhouseCoopers LLP  
A/C # [REDACTED]

PLEASE INCLUDE OUR INVOICE NUMBER  
IN THE DESCRIPTION FIELD OF THE WIRE TRANSFER.

**The New York State Office of the Attorney General**

**Billing Addendum Audit**

	<b>Hours</b>	<b>Hourly Rate</b>	<b>Total</b>
<b>Partner</b>	4.0	\$224.00	\$ 896.00
<b>Manager</b>	19.0	\$144.00	<u>2,736.00</u>
			\$ 3,632.00
<b>Valued client discount (10.3%)</b>			<u>(374.10)</u>
<b>Total</b>			\$ 3,257.00
<b>Amount left on contract</b>			\$ 3,171.00



## STANDARDS FOR INTERNAL CONTROLS IN NEW YORK STATE GOVERNMENT

### I. Introduction (p.3)

- Purpose of the document is to advise government employees of the standards against which the performance of their programs and organizations will be measured; that such standards will be the basis for the audits performed by the State Comptroller; and that government employees should view the information contained in the Standards as a guide to assist them in managing their operations.

### II. The Internal Controls Framework (p.4 - 8)

- Internal Controls bring order, direction and consistency to our lives and organizations
- Internal Controls not only necessary to account for funds expended on a program, but to demonstrate the value of the program and its accomplishments
- *Internal Controls System* is a method to give managers the means to provide for program accountability as well as the means to obtain reasonable assurance that the programs they direct meet established goals and objectives; ***"...Internal Controls or an internal control system is 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 mission."***
- Internal controls impact all aspects of an organization; are the basic element that permeates an organization; incorporate qualities of good management; are dependent upon people for its success; are effective when all work together; provide a level of comfort to an organization; do not guarantee success; and assist an organization to achieve its mission.
- All persons in an organization have responsibility for Internal Controls; executive management must set the tone at the top. Greatest responsibility rests with management. Employee activity must be monitored to avoid disregard of internal controls.
- The need for Internal Controls increases as organizations become more complex and types of Internal Control activities become more sophisticated. (Cites electronic commerce as an example.)
- Seven components identified as essential to achieve purposes of Internal Controls: Organization, Control Environment, Communication, Assessing and Managing Risk, Control Activities, Monitoring and Evaluation. Of these, the draft exposure cites Organization and Control Environment as being especially significant.
- As defined by the International Organization of Supreme Audit Institutions, there are four purposes of Internal Controls which, if addressed, will most likely result in achieving the organization's mission: (1) to promote orderly, economical, efficient and effective operations and to produce quality products and services consistent with the organization's mission; (2) to safeguard resources against loss due to waste, abuse, mismanagement, errors and fraud; (3) to ensure adherence to laws, regulations, contracts and management directives; and (4) to develop and maintain reliable financial and management data, and to accurately present that data in timely reports. Failure to address even one, may put the organization at risk.

- Roles and duties of the Internal Auditor and Internal Control Officer (ICO) should remain separate: ICO coordinates the internal control program for the agency, establishes policies, procedures, guidelines and requirements that agency employees should follow to ensure the agency system of internal control is functioning properly, establishes a system of internal control review, provides for the availability to all employees management policies and standards for the agency, implements education and training about internal controls and internal control evaluations; the Internal Auditor is responsible for evaluating the effectiveness of this system, and should be independent of the processes he or she audits. The exposure draft states that the same individual can not simultaneously fulfill the responsibilities of ICO and Internal Auditor and maintain the necessary independence.

### III. Organization (p.10 - 13)

- Includes people doing various functions, which are directed in a way that brings the functions together into an orderly, functional and structured whole to achieve a mission.
- Organization process establishes a strategic plan which includes the mission, objectives, goals, operational plans, structure and distinct assessable units. Management responsible to explain, document and communicate this information throughout the organization, and to periodically review and update plan for adequacy and relevancy.
- *Mission:* provides direction and purpose; serves as a guide when making critical decisions. Well-defined mission should identify customer needs, provide direction and stability to the organization, and motivate staff who should perceive they have a personal stake in the mission. Mission should be periodically reviewed for adequacy and relevancy.
- *Objectives:* The organizations desired outcomes, product of the planning process, necessary for coordinating efforts within an organization; may be organizational or operational. (Organizational objectives derived from mission by management and are long-range broad statements which define the desired outcomes of the organization as a whole. Operational objectives are derived from the organizational objectives; are shorter-range, more specific and define the desired outcomes of each of the organization's sub-units, are structured in a hierarchy so each accomplished objective helps the next higher level to achieve objectives.) All objectives should be documented and provided to employees. Objectives should be periodically reviewed for adequacy and relevancy
- *Goals:* Objectives translated into specific, measurable targets; are quantifiable and provide means for assessing the accomplishment of objectives. Goals should be documented, communicated and understood by staff. Goals should be periodically reviewed for adequacy and relevancy
- *Operational Plans:* Based on most objective and accurate information available; used by managers at all levels to determine priority and timing of objectives; to resolve conflicts between objectives; to establish organizations policies and procedures; set budgets, schedules and resource management. Plans provided to and understood by all who must follow them. Plans to be flexible and periodically reviewed for adequacy and relevancy.

- **Structure:** the framework in which the organization's plans are carried out. Charts organizational structure providing a clear picture of authority (and its delegation) and accountability relationships between functions. Requires the provision of qualified and continuous supervision; ensures employees are aware of their duties and responsibilities, and the extent of their accountability for activities.
- **Assessable Units:** The segmentation of the organization into "assessable units" in order to perform a systematic evaluation of an organization's system of internal controls. Segments of functional subunits found on an organizational chart which have an identifiable purpose that result in the creation of a service or a product (either internally or externally) and/or that fulfills a law, regulation or other mandate. A documented listing of assessable units should be maintained and periodically reviewed for relevancy and accuracy.

### Control Environment (p.14 -16)

- The atmosphere created by the people of an organization; a product of management's ethical values, integrity, philosophy, style and supportive attitude, as well as the competence and morale of the organization's people.
- **Ethical Values and Integrity.** Standards of behavior that form the framework for employee conduct encouraged and communicated by management and which guide employees when they make decisions on the job. Management responsible to ensure that processes and activities serve to strengthen integrity. (*Listing of ethical values, activities and processes listed on page 14.*)
- **Management Operating Style and Philosophy:** Management's basic beliefs regarding how the people and activities of an organization should be managed. Management to "...practice the most effective style and philosophy for the organization, assuring they reflect the ethical values of the organization and positively affect staff morale." This to be established, put into practice and communicated to staff. The degree to which management is willing to accept risks and the degree of economic or regulatory control imposed by others; the attitude of management toward data processing and accounting functions in general, will affect the nature of internal controls.
- **Competence:** A characteristic of people who have the skill, knowledge and ability to perform a task. Management responsible for ensuring competency of personnel by establishing appropriate human resource policies and practices, (listed on p. 15), and by ensuring staff have the tools they need to perform their tasks.
- **Morale:** The attitude people have about their work as exhibited by their confidence, discipline and their willingness to perform tasks. Management to monitor morale and take actions to maintain high morale.
- **Supportive Attitude:** A disposition that encourages a desired outcome. Executive management to set the tone that emphasizes importance of internal controls in ensuring the accomplishment of the organization's mission to the extent there is: minimal and guarded use of control overrides, an openness to control self-evaluations and internal and external audits of controls, responsiveness to issues raised as the result of evaluations and audits, and on-going education to ensure everyone understands the internal control system and their role in it.

## V. Communication (p. 17 - 19)

- The exchange of oral or written information between and among people and organizations; should travel in all directions to ensure all are informed and that decisions and actions of different units are communicated and coordinated. Essential for an organization to maintain an effective system of internal control. Communication should be timely, sufficiently detailed and tailored to the user.
- *Communication and Internal Controls*: Management should ensure clear communication channels exist to carry information to people who need it throughout the organization to inform employees of duties and responsibilities, report sensitive matters, enable employees to provide suggestions for improvement, convey management's message that internal control responsibilities are important and must be taken seriously. External communications must also be established (customers, vendors, regulators, etc.)
- *Organization*: Communications provide the means for management to convey organization's goals, objectives, policies and plans.
- *Control Environment*: Communication should be sufficient to broadcast organization's ethical values, codes of conduct and standards of discipline; enable personnel to report, without retribution, improper acts or unethical behavior, complaints and/or unfavorable customer feedback.
- *Assessing and Managing Risk*: Communication necessary for risk assessment because they help managers i.d. new risks - or changes in existing risks - so they can decide how to manage them. Managers can communicate risk assessment results and risk management decisions both to upper management and to those who carry out risk management activities.
- *Control Activities*: Good communication channels enable management to explain control activities and responsibilities and ensures that management is alerted when a control activity fails and corrective action is needed.
- *Monitoring*: Involves significant communication. Operating staff communicates details of their work activities to supervisors; supervisors communicate results of their monitoring; upper management responds.
- *Evaluation*: Measurement of the organization's performance. Management should use evaluations to determine effectiveness of the internal control system and organization's progress in achieving goals, objectives and mission; to assess the need for change and opportunities for improvement.

## VI. Assessing and Managing Risk (p. 20 - 24)

- Risks are events that threaten the accomplishment of objectives. Risk assessment is the process of identifying, evaluating and determining how to manage these events.
- *Risk Assessment Preparation*: Management should first ensure that it has identified all organizational and operational objectives and has established control objectives, then identify and document the risks associated with the objectives.
- *Risk Assessment Process*: Each risk should be evaluated and ranked by management in terms of its significance (measure of the effect if an unfavorable event were to occur), likelihood (probability that an unfavorable event would occur) and cause (why an unfavorable event may occur). Management should use this information to manage ,

prevent or reduce risk; how to schedule the frequency of internal control system evaluations; how to manage risk during change.

- *Managing Risk* - Executive management should provide documented guidelines to managers throughout the organization to help them determine the level and kinds of risk that are acceptable and not acceptable. Guidelines are to be used by managers to determine whether to accept the risk in a given situation; establish control activities to prevent, reduce or avoid the risk entirely. Management should maintain analysis and interpretation of the risk assessment information to support risk management decisions and review periodically.

## VII. Control Activities (p. 25 - 30)

- *Tools* - both manual and automated - that help prevent or reduce risks that can impede accomplishment of an organization's mission. Management should get the maximum benefit from control activities it establishes at the lowest possible cost.
- *Rules* - Cost of control activity should not exceed cost incurred should an unfavorable event occur; controls should be built into business processes and systems when the systems are designed; distribution of resources should be based on the significance and likelihood of the risk it is preventing or reducing.
- *Control Activities* - Directive (designed to guide an organization toward its desired goals), Preventive (designed to deter the occurrence of an undesirable event), Detective (designed to identify undesirable events that do occur), and Corrective (processes that keep the focus on undesirable conditions until they are corrected.)
- *Documentation* - Preserving evidence to substantiate a decision, event, transaction, or system. Should be complete and recorded promptly, contribute to achieving the organization's mission, help managers to control operations and assist in analyzing operation. Document critical decisions and significant events, transactions, and the organization's system of internal control.
- *Approval and Authorization* - Approval is the confirmation or sanction of employee decisions, events, or transactions based on a review. authorization is the power management grants employees to carry out certain duties, based on approval received from superiors.
- *Verification* - The determination of the completeness, accuracy, authenticity and/or validity of transactions, events or information. Enables management to ensure activities are being done in accordance with directives. Management determines what gets verified, based on risk to the organization if there were no verification (ex. hiring process, purchasing equipment.)
- *Supervision* - The management or guidance of an activity to help ensure the results of the activity achieve established outcomes. Supervisors should: monitor, review and approve, provide guidance and training, ensure employees understand and follow directives, clearly communicate duties and responsibilities.
- *Separation of Duties* - The division of key tasks and responsibilities among the various employees and subunits of an organization.
- *Safeguarding Assets* - Restricting access to resources and information to help reduce risk of unauthorized use or loss.
- *Reporting* - Means of conveying information.

- *Control Activities for Computer Systems (For the Non-Systems Manager)* - Unique to computer environment. Exists to address the characteristics that distinguish computerized processes from manual processes and such activities are typically categorized as either general controls (those that relate to all activities in the computer environment) or application controls (those relating to specific tasks performed by the computer system.)
- *Backup and Disaster Recovery* - Computer systems backup and recovery procedures to prevent or reduce risks involved related to system failure, power loss or other potential threats to the system or data.
- *Input Controls* - Ensure that data ready for processing has been authorized and converted into a machine-readable format and which enable the user to determine if data has been lost, suppressed, added, duplicated or otherwise improperly altered.
- *Output Controls* - Ensure that system generated information is accurate and that only authorized users receive this information.

### VIII. Monitoring (p. 31 - 33)

- Monitoring is management's ongoing review of the organization's daily activities and transactions to determine whether controls are effective in ensuring that operations work as intended.
- Everyone has some responsibility for monitoring - staff, supervisors, middle management, executive management.
- Major areas for monitoring include: control activities, goals, control environment, communication, and risks and opportunities.
- *Monitoring Results* - Management should ensure there are open lines of communication, that results of monitoring are documented as well as the results of monitoring and any actions taken in response to the results.

### IX. Evaluation (p.34 - 37)

- The process management uses to assess whether an organization's operations are effective in achieving its mission. Purposes of evaluation are to provide management with reasonable assurance that the elements of the internal control system are functioning effectively and that management can identify risks and opportunities.
- *Evaluation vs. Monitoring* - Evaluation involves periodic assessments of the organization's performance over time; Monitoring involves performing daily or routine procedures.
- *The basis for Evaluation* - Accomplished through self-assessments (organization assesses itself) and independent assessments (done by persons not directly involved in the organization's operations and which can be done by external auditors or the organization's internal auditor).
- *Assessing the System of Internal Control* - Management begins the self-assessment process by identifying assessable units within the organization. The managers of the assessable units have the responsibility for determining the effectiveness of the controls within their respective units. In doing this self assessment, managers should get answers to questions which indicate the integrity of each aspect of internal controls. Such questions should encompass the following areas: Organization, Control

environment, Assessing and Managing Risk, Control Activities, Communication, Monitoring, and Evaluation.

- *Assessing Accomplishment of the Mission* - Management should assess accomplishment of the mission at all levels of the organization on a regular basis. At production levels, a comparison of the actual accomplishments of the specific subunits to their operational plans and objectives; for major organizational divisions, the accomplishments of the divisions to the strategic plans and organizational objectives. This should be performed following the assessment of the system of internal control. Deficiencies identified should be documented.
- *Assessing Risk and Opportunities* - Assessments to determine how effectively the organization identifies and responds to new risks and opportunities. Determines if newly identified opportunities should result in changes in the organization's direction, mission, strategic plans or objectives; challenges assumptions used to develop the mission, plans and objectives.
- *Assessment Documentation* - Management should ensure it performs all aspects of its self-assessment according to documented plans that clearly define responsibilities, evaluation methodologies (including the sources and types of information needed for accurate assessments), reporting requirements, and the method for ensuring any deficiencies are corrected.
- *Communicating and Using Evaluation Results* - All results should be communicated - good and bad.

# PRICEWATERHOUSECOOPERS

November 13, 1998

Invoice Number 1263-002861-6

Mr. Daniel Dustin  
 Internal Audit Officer  
 State of New York  
 Office of Attorney General  
 State Capitol  
 Albany, NY 12224

INVOICE FOR SERVICES  
 PricewaterhouseCoopers LLP  
 P.O. Box 3026  
 Boston, MA 02241-3026

Progress billing for services rendered in connection with the internal control review.

See attached addendum.

Total Invoice

-----  
 \$25,070.00  
 -----

Contact: Richard E Grant  
 Engagement No. 160884-3334-00

**Payment Due Upon Receipt**

tax identification number 13-4008324

return this portion with your remittance

Mr. Daniel Dustin  
 Internal Audit Officer  
 State of New York  
 Office of Attorney General  
 State Capitol  
 Albany, NY 12224

November 13, 1998  
 Invoice Number 1263-002861-6  
 Invoice Amount \$25,070.00

Amount Paid \_\_\_\_\_

By Check Remit to:  
 PricewaterhouseCoopers LLP  
 P.O. Box 3026  
 Boston, MA 02241-3026



*File*  
*Internal Control*



From the desk of ...

**Mark Buxbaum**

Director of Budget & Fiscal Management  
Office of New York State Attorney General  
Phone (518) 474-8146  
Fax (518) 474-0714  
adamxb@oag.state.ny.us

---

Date: August 20, 1999

To: Sylvia Hamer

- No Change from Existing Procedures
  - We are exempt from DOB oversight (we certify voluntarily!)
  - If we hire an Internal Control Officer, DOB does not approve appointment
  - We have to do a tri-annual independent audit of our internal controls

WARNE

8-18-99

# STATE OF NEW YORK

4927--B

Cal. No. 1316

1999-2000 Regular Sessions

## IN SENATE

April 20, 1999

Introduced by Sens. STAFFORD, LACK, RATH -- (at request of the Governor) -- read twice and ordered printed, and when printed to be committed to the Committee on Finance -- committee discharged, bill amended, ordered reprinted as amended and recommitted to said committee -- committee discharged and said bill committed to the Committee on Rules -- ordered to a third reading, passed by Senate and delivered to the Assembly, recalled, vote reconsidered, restored to third reading, recommitted to the committee on Rules -- committee discharged, bill amended, ordered reprinted as amended and recommitted to said committee

AN ACT to amend the state finance law, the executive law, the legislative law, the judiciary law, the public authorities law and the public officers law, in relation to systems of internal control for state agencies, certain authorities, the legislature and the judiciary

The People of the State of New York, represented in Senate and Assembly, do enact as follows:

- 1 Section 1. Short title. This act shall be known and may be cited as
- 2 the "New York state governmental accountability, audit and internal
- 3 control act".
- 4 § 2. Legislative findings. The legislature hereby finds that the
- 5 scope, size and complexity of state government make it necessary to
- 6 assure that the state's systems of internal control provide reasonable
- 7 control over all state operations, and provide the public, the governor,
- 8 the state legislature, the judiciary and the heads of state agencies and
- 9 authorities with assurance that state assets and resources, including
- 10 but not limited to, cash, investments, facilities, inventories,
- 11 supplies, equipment, and personal and contractual services are being
- 12 utilized consistent with the requirements of law and duly established
- 13 managerial policies and in an effective, economical and efficient
- 14 manner.

EXPLANATION--Matter in italics (underscored) is new; matter in brackets [ ] is old law to be omitted.

LBD12033-07-9



NYS DEPT OF LAW  
900 NYS 19 APR 10  
FINANCE OFFICE

S. 4927--B

2

1 The legislature further finds that the public has a right to know the  
2 extent to which state agencies and authorities, the legislature and the  
3 judiciary are achieving the objectives of internal control described  
4 herein and consequently to be fully informed of weaknesses identified  
5 through the conduct of external audits of internal controls.

6 The legislature further finds that prudent management of state govern-  
7 ment requires controls in all aspects of state government designed to  
8 assure that assets are properly safeguarded, that accounting entries and  
9 data are accurate and reliable, and that prescribed managerial policies  
10 are adhered to, including assurances that such assets and resources are  
11 used only for proper purposes. Therefore, this act requires systems of  
12 internal control throughout state government as well as the external  
13 audit thereof.

14 The legislature finds that the adequacy and effectiveness of existing  
15 state government internal control and internal audit functions can be  
16 improved by the implementation of a more comprehensive system of inter-  
17 nal control and internal audit that encompasses all of state government  
18 and will foster the effective and efficient use of government resources  
19 and ensure the integrity of accounting systems.

20 The legislature further finds that it is responsible for the gener-  
21 ation of revenue and the appropriation of funds; and, in keeping with  
22 the constitutional principle of the separation of powers and the fact  
23 that it is directly chosen by the people, the legislature is itself  
24 directly responsible to the public for the proper use and application of  
25 the resources necessary for its operation; and the operational require-  
26 ments of the legislature, which is a lateral, collegial institution  
27 rather than a hierarchical organization and is constitutionally charged  
28 with determining the rules of its own procedures, differ in many  
29 respects from those agencies charged with the delivery of goods and  
30 services to the people of the state.

31 The legislature previously enacted the New York state governmental  
32 accountability, audit and internal control act of 1987. The 1987 act  
33 required a system of internal controls and internal audits of funds,  
34 materials, and workforce performance. In 1993, the 1987 act was extended  
35 to January 1, 1999.

36 The legislature finds that the existing systems of internal control  
37 and internal audit should be reaffirmed. The legislature further finds  
38 that it is desirable to coordinate existing internal control efforts and  
39 provide a continuing statutory foundation for a comprehensive system  
40 that will foster the effective and efficient use of government resources  
41 and ensure the integrity and reliability of accounting systems.

42 § 3. The state finance law is amended by adding a new section 2-a to  
43 read as follows:

44 § 2-a. Additional definitions. As used in subdivisions two-b and  
45 two-c of section eight of this chapter, the following terms shall have  
46 the following meanings:

47 1. "Internal control". A process that integrates the activities,  
48 plans, attitudes, policies, systems, resources and efforts of the people  
49 of an organization working together, and that is designed to provide  
50 reasonable assurance that the organization will achieve its objectives  
51 and mission. The objectives of an internal control system include, but  
52 are not limited to: the safeguarding of assets; checking the accuracy  
53 and reliability of accounting data and financial reporting; promoting  
54 the effectiveness and efficiency of operations; ensuring compliance with  
55 applicable laws and regulations; and encouraging adherence to prescribed  
56 managerial policies. Internal control review processes are used period-



1. ically to evaluate the ongoing internal control system and to assess and  
 2. monitor the implementation of necessary corrective actions.

3. 2. "Internal audit". An appraisal activity established by the manage-  
 4. ment of an organization for the review of operations as a means of  
 5. assuring conformance with management policies and the effectiveness of  
 6. internal control, and conducted in conformance with generally accepted  
 7. standards for internal auditing.

8. 3. "State agency". Any state department, state university of New York,  
 9. city university of New York, board, bureau, division, commission,  
 10. committee, council, office or other governmental entity performing a  
 11. governmental or proprietary function for the state, or any combination  
 12. thereof as provided in subdivision two of section nine hundred fifty-one  
 13. of the executive law, except any public authority or public benefit  
 14. corporation, the judiciary or the state legislature.

15. 4. "Judiciary". The courts and court-related programs, including the  
 16. office of court administration, of the state-funded portion of the  
 17. unified court system and all components thereof as provided in subdivi-  
 18. sion two of section two hundred forty-nine-a of the judiciary law.

19. 5. "State legislature". The legislature of the state of New York,  
 20. including all components thereof as provided in subdivision two of  
 21. section ninety of the legislative law.

22. 6. "Covered authority". Any public authority or public benefit  
 23. corporation, other than a bi-state authority or public benefit corpo-  
 24. ration, a majority of whose members are appointed by the governor or  
 25. serve as members by virtue of holding state offices to which they were  
 26. appointed by the governor, or any combination thereof.

27. § 4. Subdivision 2-a of section 8 of the state finance law is amended  
 28. by adding a new paragraph d to read as follows:  
 29. d. which is subject to such internal control as the comptroller deems  
 30. necessary.

31. § 5. Section 8 of the state finance law is amended by adding two new  
 32. subdivisions 2-b and 2-c to read as follows:  
 33. 2-b. For the purposes of the New York state governmental accountabil-  
 34. ity, audit and internal control act, assist in the development and  
 35. implementation of an audit program for the state by:  
 36. a. Either as part of one or more audits, or separately, conducting  
 37. periodic audits of internal controls and operations of state agencies  
 38. (other than those state agencies for which an audit is required pursuant  
 39. to sections nine hundred fifty-three and nine hundred fifty-four of the  
 40. executive law) and of covered authorities. All such audits shall be  
 41. performed in accordance with generally accepted government auditing  
 42. standards. Nothing in the New York state governmental accountability,  
 43. audit and internal control act shall be deemed to diminish or impair the  
 44. comptroller's power to audit and authority to supervise accounts under  
 45. articles V and X of the state constitution and this chapter. The audits  
 46. shall identify internal control weaknesses that have not been corrected  
 47. and actions that are recommended to correct these weaknesses. If any  
 48. such internal control weaknesses are significant or material with  
 49. respect to the operations of the agency that is the subject of the  
 50. audit, the comptroller shall so state. The comptroller shall make avail-  
 51. able to the public the results of any such audits.

52. b. Providing technical assistance to state agencies and covered  
 53. authorities and, upon request, to the state legislature and the judici-  
 54. ary in the implementation of internal audit functions, which shall be  
 55. consistent with generally accepted standards for internal auditing and,  
 56. upon request, interpreting such standards.

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1 2-c. Provide technical assistance, including the issuance of internal  
2 control standards, to state agencies and covered authorities and, upon  
3 request, to the state legislature and the judiciary in the implementa-  
4 tion and periodic evaluation of internal controls, which shall be  
5 consistent with generally accepted standards for internal control and,  
6 upon request, interpret such standards.

7 § 6. Section 112 of the state finance law is amended by adding a new  
8 subdivision 1-a to read as follows:

9 1-a. The system of accounting prescribed by the comptroller pursuant  
10 to the provisions of subdivision one of this section shall be subject to  
11 such internal control as the comptroller deems necessary.

12 § 7. The executive law is amended by adding a new article 45 to read  
13 as follows:

14 ARTICLE 45

15 INTERNAL CONTROL RESPONSIBILITIES OF STATE AGENCIES

16 Section 950. Definitions.

17 951. Internal control responsibilities.

18 952. Internal audit responsibilities.

19 953. Independent audits of the executive chamber and the divi-  
20 sion of the budget.

21 954. Independent audits of the department of audit and control  
22 and the department of law.

23 § 950. Definitions. As used in this article, the following terms shall  
24 have the following meanings:

25 1. "Internal control". A process that integrates the activities,  
26 plans, attitudes, policies, systems, resources and efforts of the people  
27 of an organization working together, and that is designed to provide  
28 reasonable assurance that the organization will achieve its objectives  
29 and mission. The objectives of an internal control system include, but  
30 are not limited to: the safeguarding of assets; checking the accuracy  
31 and reliability of accounting data and financial reporting; promoting  
32 the effectiveness and efficiency of operations; ensuring compliance with  
33 applicable laws and regulations; and encouraging adherence to prescribed  
34 managerial policies. Internal control review processes are used period-  
35 ically to evaluate the ongoing internal control system and to assess and  
36 monitor the implementation of necessary corrective actions.

37 2. "Internal audit". An appraisal activity established by the manage-  
38 ment of an organization for the review of operations as a means of  
39 assuring conformance with management policies and the effectiveness of  
40 internal control, and conducted in conformance with generally accepted  
41 standards for internal auditing.

42 3. "State agency". Any state department, state university of New York,  
43 city university of New York, board, bureau, division, commission,  
44 committee, council, office or other governmental entity performing a  
45 governmental or proprietary function for the state, or any combination  
46 thereof as provided in subdivision two of section nine hundred fifty-one  
47 of this article, except any public authority or public benefit corpo-  
48 ration, the judiciary or the state legislature.

49 4. "Judiciary". The courts and court-related programs, including the  
50 office of court administration, of the state-funded portion of the  
51 unified court system and all components thereof as provided in subdivi-  
52 sion two of section two hundred forty-nine-a of the judiciary law.

53 5. "State legislature". The legislature of the state of New York,  
54 including all components thereof as provided in subdivision two of  
55 section ninety of the legislative law.



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1 6. "Covered authority". Any public authority or public benefit corpo-  
2 ration, other than a bi-state authority or public benefit corporation, a  
3 majority of whose members are appointed by the governor or serve as  
4 members by virtue of holding state offices to which they were appointed  
5 by the governor, or any combination thereof.

6 § 951. Internal control responsibilities. 1. The head of each state  
7 agency shall:

8 a. establish and maintain for the agency guidelines for a system of  
9 internal control that are in accordance with this article and internal  
10 control standards;

11 b. establish and maintain for the agency a system of internal control  
12 and a program of internal control review. The program of internal  
13 control review shall be designed to identify internal control weak-  
14 nesses, identify actions that are needed to correct these weaknesses,  
15 monitor the implementation of necessary corrective actions and period-  
16 ically assess the adequacy of the agency's ongoing internal control;

17 c. make available to each officer and employee of the agency a clear  
18 and concise statement of the generally applicable management policies  
19 and standards with which the officer or employee of such agency shall be  
20 expected to comply. Such statement shall emphasize the importance of  
21 effective internal control to the agency and the responsibility of each  
22 officer and employee for effective internal control;

23 d. designate an internal control officer, who shall report to the head  
24 of the agency, to implement and review the internal control responsibil-  
25 ities established pursuant to this section;

26 e. implement education and training efforts to ensure that officers  
27 and employees within such agency have achieved adequate awareness and  
28 understanding of internal control standards and, as appropriate, evalu-  
29 ation techniques; and

30 f. periodically evaluate the need for an internal audit function.

31 2. In order to identify all state agencies and their responsibilities  
32 for the purposes of implementing the provisions of this article, the  
33 director of the division of the budget shall issue and update as neces-  
34 sary a schedule which lists all covered state agencies.

35 § 952. Internal audit responsibilities. 1. The director of the divi-  
36 sion of the budget, after reviewing the evaluation of the head of each  
37 state agency as to the need for an internal audit function, shall issue  
38 and, at the director's discretion, periodically revise a schedule of  
39 state agencies (other than the department of audit and control and the  
40 department of law) which are required to establish and maintain an  
41 internal audit function. The comptroller and the attorney general or  
42 their designees shall determine, and periodically review such determi-  
43 nation of, whether an internal audit function within their respective  
44 departments is required. Establishment of such function shall be based  
45 upon an evaluation of exposure to risk, costs and benefits of implemen-  
46 tation, and any other factors that are determined to be relevant. The  
47 head of each state agency listed in the budget director's schedule, and  
48 the comptroller and the attorney general if they or their designees so  
49 determine, shall establish an internal audit function which operates in  
50 accordance with generally accepted professional standards for internal  
51 auditing. Any such internal audit function shall be directed by an  
52 internal audit director who shall report directly to the head of such  
53 state agency. Notwithstanding any other provision of law, each internal  
54 audit director shall be appointed by the head of the state agency based  
55 on appropriate internal auditing credentials of the proposed appointee,  
56 consistent with generally accepted standards for internal auditing,

1 including internal auditing education and experience. The position of  
2 internal audit director shall be an exempt position and except in the  
3 case of the department of audit and control and department of law, such  
4 appointment shall be subject to the approval of the director of the  
5 budget. For agencies for which an independent audit is not required  
6 pursuant to sections nine hundred fifty-three and nine hundred fifty-  
7 four of this article, the internal audit function shall evaluate the  
8 agency's internal controls and operations. The internal audit function  
9 shall also identify internal control weaknesses that have not been  
10 corrected and make recommendations to correct these weaknesses.

11 2. In the event the head of a state agency does not establish an  
12 internal audit function pursuant to subdivision one of this section, he  
13 or she shall nevertheless establish and maintain the program of internal  
14 control review required by section nine hundred fifty-one of this arti-  
15 cle.

16 § 953. Independent audits of the executive chamber and the division of  
17 the budget. 1. At least once every three years, the independent certi-  
18 fied public accountant or accountants selected pursuant to this section  
19 shall conduct audits of the internal controls of the executive chamber  
20 and the division of the budget, either as a single audit or separately.  
21 Such audits shall be performed in accordance with generally accepted  
22 government auditing standards and shall include a report on whether the  
23 executive chamber and division of the budget's internal controls are  
24 established and functioning in a manner that provides reasonable assur-  
25 ance that they meet the objectives of internal control as defined in  
26 section nine hundred fifty of this article. The report shall identify  
27 the internal controls both evaluated and not evaluated and shall identi-  
28 fy internal control weaknesses that have not been corrected and actions  
29 that are recommended to correct these weaknesses. If any such internal  
30 control weaknesses are significant or material with respect to the enti-  
31 ty, the independent auditor shall so state. The governor and the direc-  
32 tor of the budget shall make available to the public the results of such  
33 audits, including any related management letters. The governor and  
34 director of the budget and any officer or employee of the executive  
35 chamber and the division of the budget shall make available upon request  
36 to such independent certified public accountants all books and records  
37 relevant to such independent audits.

38 2. The governor and the director of the budget, either separately or  
39 jointly, shall request proposals from independent certified public  
40 accountants for audits of the internal controls of the executive chamber  
41 and the division of the budget. The requests for proposals shall include  
42 a reference to the requirements for audits conducted pursuant to subdivi-  
43 vision one of this section. The governor and the director of the budget  
44 shall select such independent auditor or auditors in accordance with a  
45 competitive procedure including an evaluation, based on quality and  
46 price factors, of those proposals received in response to such requests  
47 for proposals.

48 § 954. Independent audits of the department of audit and control and  
49 the department of law. 1. At least once every three years, the independ-  
50 ent certified public accountants selected pursuant to this section shall  
51 conduct audits of the internal controls of the department of audit and  
52 control and the department of law, respectively. Such audits shall be  
53 performed in accordance with generally accepted government auditing  
54 standards and shall include a report on whether the departments' inter-  
55 nal controls are established and functioning in a manner that provides  
56 reasonable assurance that they meet the objectives of internal control

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1 as defined in section nine hundred fifty of this article. The report  
2 shall identify the internal controls both evaluated and not evaluated  
3 and shall identify internal control weaknesses that have not been  
4 corrected and actions that are recommended to correct these weaknesses.  
5 If any such internal control weaknesses are significant or material with  
6 respect to such departments, the independent auditors shall so state.  
7 The comptroller and the attorney general shall make available to the  
8 public the results of such audits, including any related management  
9 letters. The comptroller and attorney general and any officer or employ-  
10 ee of such departments shall make available upon request to such inde-  
11 pendent certified public accountants all books and records relevant to  
12 such independent audits.

13 2. The comptroller and the attorney general shall request proposals  
14 from independent certified public accountants for audits of the internal  
15 controls of their respective departments. The requests for proposals  
16 shall include a reference to the requirements for audits conducted  
17 pursuant to subdivision one of this section. The comptroller and attor-  
18 ney general shall select such independent auditors in accordance with a  
19 competitive procedure including an evaluation, based on quality and  
20 price factors, of those proposals received in response to such requests  
21 for proposals.

22 3. Whenever the comptroller or the comptroller's appointee is a member  
23 of any board, commission, committee, council, or corporation, which  
24 constitutes a state agency, the governing body of such board, commis-  
25 sion, committee, council, or corporation shall select an independent  
26 auditor for the purpose of conducting audits of internal controls in  
27 accordance with this section.

28 § 8. Article 6 and sections 90 and 91 of the legislative law, article  
29 6 as renumbered by chapter 941 of the laws of 1964, are renumbered arti-  
30 cle 7 and sections 100 and 101 and a new article 6 is added to read as  
31 follows:

ARTICLE 6

INTERNAL CONTROL RESPONSIBILITIES OF THE STATE LEGISLATURE

Section 89. Definitions.

90. Internal control responsibilities.

91. Internal audit responsibilities.

92. Independent audits.

§ 89. Definitions. As used in this article, the following terms shall  
have the following meanings:

1. "Internal control". A process that integrates the activities,  
plans, attitudes, policies, systems, resources and efforts of the people  
of an organization working together, and that is designed to provide  
reasonable assurance that the organization will achieve its objectives  
and mission. The objectives of an internal control system include, but  
are not limited to: the safeguarding of assets; checking the accuracy  
and reliability of accounting data and financial reporting; promoting  
the effectiveness and efficiency of operations; ensuring compliance with  
applicable laws and regulations; and encouraging adherence to prescribed  
managerial policies. Internal control review processes are used period-  
ically to evaluate the ongoing internal control system and to assess and  
monitor the implementation of necessary corrective actions.

2. "Internal audit". An appraisal activity established by the manage-  
ment of an organization for review of operations as a means of assuring  
conformance with management policies and the effectiveness of internal  
control, and conducted in conformance with generally accepted standards  
for internal auditing.





1     3. "Legislature". The legislature of the state of New York, including  
2 all components thereof as provided in subdivision two of section ninety  
3 of this chapter.

4     § 90. Internal control responsibilities. 1. The senate and the assem-  
5 bly shall each:

6     a. establish and maintain by rule guidelines for a system of internal  
7 control; and

8     b. establish and maintain a system of internal control and a program  
9 of internal control review for their respective house.

10     2. In order to identify all the components of the legislature and  
11 their responsibilities for the purposes of implementing the provisions  
12 of this article, the temporary president of the senate and the speaker  
13 of the assembly shall jointly issue, and at their discretion, period-  
14 ically revise a schedule which lists all components of each of their  
15 respective houses of the legislature. The temporary president of the  
16 senate and the speaker of the assembly may identify in a schedule compo-  
17 ponents for which joint internal controls and internal control reviews  
18 will be established and maintained.

19     § 91. Internal audit responsibilities. 1. The temporary president of  
20 the senate and the speaker of the assembly or their designees shall  
21 determine, and periodically review such determination of, whether an  
22 internal audit function within their respective house is required.  
23 Establishment of such function shall be based upon an evaluation of  
24 costs and benefits of implementation and other factors that are deter-  
25 mined to be relevant. In the event it is determined that an internal  
26 audit function is required for one or both houses, the temporary presi-  
27 dent of the senate or the speaker of the assembly shall establish an  
28 internal audit function within the respective house which operates in  
29 accordance with generally accepted standards for internal auditing. Any  
30 such internal audit function shall be directed and shall report in a  
31 manner prescribed by the respective house. The internal audit function  
32 shall evaluate the respective house's internal controls, identify inter-  
33 nal control weaknesses that have not been corrected and make recommenda-  
34 tions to correct these weaknesses.

35     2. In the event the temporary president of the senate or the speaker  
36 of the assembly does not establish an internal audit function pursuant  
37 to subdivision one of this section he or she shall nevertheless estab-  
38 lish and maintain the program of internal control review required by  
39 section ninety of this article.

40     § 92. Independent audits. 1. At least once every three years, the  
41 independent certified public accountants selected pursuant to this  
42 section shall conduct audits of the internal controls of each house of  
43 the legislature. Such audits shall be performed in accordance with  
44 generally accepted government auditing standards and shall include a  
45 report on whether the respective house's internal controls are estab-  
46 lished and functioning in a manner that provides reasonable assurance  
47 that they meet the objectives of internal control as defined in section  
48 eighty-nine of this article. The report shall identify the internal  
49 controls both evaluated and not evaluated and shall identify internal  
50 control weaknesses that have not been corrected and actions that are  
51 recommended to correct these weaknesses. If any such internal control  
52 weaknesses are significant or material with respect to each house, the  
53 independent auditor shall so state. The temporary president of the  
54 senate and the speaker of the assembly shall make available to the  
55 public the results of such audits, including any related management  
56 letters. The temporary president and the speaker and any officer or

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1 employee of each house shall make available upon request to such inde-  
 2 pendent certified public accountants all books and records relevant to  
 3 such independent audits.  
 4 2. The temporary president of the senate and the speaker of the  
 5 assembly shall request proposals from independent certified public  
 6 accountants for audits of the internal controls of their respective  
 7 house. The requests for proposals shall include a reference to the  
 8 requirements for audits conducted pursuant to subdivision one of this  
 9 section. The temporary president and the speaker shall select such inde-  
 10 pendent auditors in accordance with a competitive procedure including an  
 11 evaluation, based on quality and price factors, of those proposals  
 12 received in response to such requests for proposals.  
 13 § 9. Subdivision 1 of section 211 of the judiciary law is amended by  
 14 adding a new paragraph (g-1) to read as follows:  
 15 (g-1) A system of internal control for the unified court system,  
 16 pursuant to article seven-D of this chapter.  
 17 § 10. The judiciary law is amended by adding a new article 7-D to read  
 18 as follows:  
 19 ARTICLE 7-D  
 20 INTERNAL CONTROL RESPONSIBILITIES OF THE JUDICIARY  
 21 Section 249. Definitions.  
 22 249-a. Internal control responsibilities.  
 23 249-b. Internal audit responsibilities.  
 24 249-c. Independent audits.  
 25 § 249. Definitions. As used in this article, the following terms shall  
 26 have the following meanings:  
 27 1. "Internal control". A process that integrates the activities,  
 28 plans, attitudes, policies, systems, resources and efforts of the people  
 29 of an organization working together, and that is designed to provide  
 30 reasonable assurance that the organization will achieve its objectives  
 31 and mission. The objectives of an internal control system include, but  
 32 are not limited to: the safeguarding of assets; checking the accuracy  
 33 and reliability of accounting data and financial reporting; promoting  
 34 the effectiveness and efficiency of operations; ensuring compliance with  
 35 applicable laws and regulations; and encouraging adherence to prescribed  
 36 managerial policies. Internal control review processes are used period-  
 37 ically to evaluate the ongoing internal control system and to assess and  
 38 monitor the implementation of necessary corrective actions.  
 39 2. "Internal audit". An appraisal activity established by the manage-  
 40 ment of an organization for the review of operations as a means of  
 41 assuring conformance with management policies and the effectiveness of  
 42 internal control, and conducted in conformance with generally accepted  
 43 standards for internal auditing.  
 44 3. "Judiciary". The courts and court-related programs, including the  
 45 office of court administration, of the state-funded portion of the  
 46 unified court system and all components thereof as provided in subdivi-  
 47 sion two of section two hundred forty-nine-a of this article.  
 48 § 249-a. Internal control responsibilities. 1. The chief judge shall:  
 49 a. establish and maintain for the judiciary guidelines for a system of  
 50 internal control;  
 51 b. establish and maintain for the judiciary a system of internal  
 52 control and a program of internal control review. The program of inter-  
 53 nal review shall be designed to identify internal control weaknesses and  
 54 identify actions that are needed to correct these weaknesses; and



1 c. designate one or more internal control officers to implement and  
2 review the internal control responsibilities established pursuant to  
3 this section.

4 2. In order to identify all components of the judiciary and their  
5 responsibilities for the purposes of implementing the provisions of this  
6 article, the chief judge shall issue and, at his or her discretion,  
7 periodically revise a schedule which lists all such components.

8 § 249-b. Internal audit responsibilities. 1. The chief judge or his  
9 or her designee shall determine, and periodically review his or her  
10 determination of, whether an internal audit function within the judi-  
11 ciary is required. Establishment of such function shall be based upon an  
12 evaluation of exposure to risk, costs and benefits of implementation,  
13 and any other factors that are determined to be relevant. In the event  
14 it is determined that an internal audit function is required, the chief  
15 judge shall establish an internal audit function which operates in  
16 accordance with generally accepted professional standards for internal  
17 auditing. Any such internal audit function shall be directed by an  
18 internal audit director who shall report directly to the chief adminis-  
19 trative judge. The internal audit function shall evaluate the judi-  
20 ciary's internal controls, identify internal control weaknesses that have  
21 not been corrected and make recommendations to correct these weaknesses.

22 2. In the event the chief judge does not establish an internal audit  
23 function pursuant to subdivision one of this section he or she shall  
24 nevertheless establish and maintain the program of internal control  
25 review required by section two hundred forty-nine-a of this article.

26 § 249-c. Independent audits. 1. At least once every three years, the  
27 independent certified public accountant selected pursuant to this  
28 section shall conduct audits of the internal controls of the judiciary.  
29 Such audits shall be performed in accordance with generally accepted  
30 government auditing standards and shall include a report on whether the  
31 judiciary's internal controls are established and functioning in a  
32 manner that provides reasonable assurance that they meet the objectives  
33 of internal control as defined in section two hundred forty-nine of this  
34 article. The report shall identify the internal controls both evaluated  
35 and not evaluated and shall identify internal control weaknesses that  
36 have not been corrected and actions that are recommended to correct  
37 these weaknesses. If any such internal control weaknesses are signif-  
38 icant or material with respect to the judiciary, the independent auditor  
39 shall so state. The chief judge shall make available to the public the  
40 results of such audits, including any related management letters. The  
41 chief judge and any officer or employee of the judiciary shall make  
42 available upon request to such independent certified public accountants  
43 all books and records relevant to such independent audits.

44 2. The chief judge shall request proposals from independent certified  
45 public accountants for audits of the internal controls of the judiciary.  
46 The requests for proposals shall include a reference to the requirements  
47 for audits conducted pursuant to subdivision one of this section. The  
48 chief judge shall select such independent auditor in accordance with a  
49 competitive procedure including an evaluation, based on quality and  
50 price factors, of those proposals received in response to such requests  
51 for proposals.

52 § 11. Article 9 of the public authorities law is amended by adding a  
53 new title 8 to read as follows:

54 TITLE 8

55 INTERNAL CONTROL RESPONSIBILITIES OF PUBLIC AUTHORITIES

56 Section 2930. Definitions.



s to implement and established pursuant to

the judiciary and their the provisions of this or her discretion, components.

the chief judge or his review his or her on within the judici- ll be based upon an ts of implementation, evant. In the event s required, the chief which operates in tandards for internal be directed by an to the chief adminis- valuate the judici- weaknesses that have ct these weaknesses.

an internal audit tion he or she shall of internal control of this article.

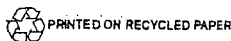
very three years, the pursuant to this s of the judiciary. h generally accepted port on whether the nd functioning in a meet the objectives d forty-nine of this trols both evaluated trol weaknesses that mended to correct aknesses are signif- independent auditor to the public the agement letters. The diciary shall make d public accountants dits.

independent certified s of the judiciary. to the requirements this section. The n accordance with a d on quality and se to such requests

ended by adding a

AUTHORITIES

- 1 § 2931. Internal control responsibilities.
- 2 § 2932. Internal audit responsibilities.
- 3 § 2930. Definitions. For the purposes of this title, the following
- 4 terms shall have the following meanings:
- 5 1. "Internal control". A process that integrates the activities,
- 6 plans, attitudes, policies, systems, resources and efforts of the people
- 7 of an organization working together, and that is designed to provide
- 8 reasonable assurance that the organization will achieve its objectives
- 9 and mission. The objectives of an internal control system include, but
- 10 are not limited to: the safeguarding of assets; checking the accuracy
- 11 and reliability of accounting data and financial reporting; promoting
- 12 the effectiveness and efficiency of operations; ensuring compliance with
- 13 applicable laws and regulations; and encouraging adherence to prescribed
- 14 managerial policies. Internal control review processes are used period-
- 15 ically to evaluate the ongoing internal control system and to assess and
- 16 monitor the implementation of necessary corrective actions.
- 17 2. "Internal audit". An appraisal activity established by the manage-
- 18 ment of an organization for the review of operations as a means of
- 19 assuring conformity with management policies and the effectiveness of
- 20 internal control, and conducted in conformance with generally accepted
- 21 standards for internal auditing.
- 22 3. "Covered authority". Any public authority or public benefit corpo-
- 23 ration, other than a bi-state authority or public benefit corporation, a
- 24 majority of whose members are appointed by the governor or serve as
- 25 members by virtue of holding state offices to which they were appointed
- 26 by the governor, or any combination thereof.
- 27 § 2931. Internal control responsibilities. The governing board of each
- 28 covered authority shall: 1. establish and maintain for the authority
- 29 guidelines for a system of internal control that are in accordance with
- 30 this article and internal control standards;
- 31 2. establish and maintain for the authority a system of internal
- 32 control and a program of internal control review. The program of inter-
- 33 nal review shall be designed to identify internal control weaknesses,
- 34 identify actions that are needed to correct these weaknesses, monitor
- 35 the implementation of necessary corrective actions and periodically
- 36 assess the adequacy of the authority's ongoing internal controls;
- 37 3. make available to each member, officer and employee a clear and
- 38 concise statement of the generally applicable managerial policies and
- 39 standards with which he or she is expected to comply. Such statement
- 40 shall emphasize the importance of effective internal control to the
- 41 authority and the responsibility of each member, officer and employee
- 42 for effective internal control;
- 43 4. designate an internal control officer, who shall report to the head
- 44 of the authority, to implement and review the internal control responsi-
- 45 bilities established pursuant to this section; and
- 46 5. implement education and training efforts to ensure that members,
- 47 officers and employees have achieved adequate awareness and understand-
- 48 ing of internal control standards and, as appropriate, evaluation tech-
- 49 niques.
- 50 § 2932. Internal audit responsibilities. 1. The governing board of
- 51 each covered authority or its designee shall determine, and periodically
- 52 review the determination of, whether an internal audit function within
- 53 the covered authority is required. Establishment of such function shall
- 54 be based upon an evaluation of exposure to risk, costs and benefits of
- 55 implementation, and any other factors that are determined to be rele-
- 56 vant. In the event it is determined that an internal audit function is



1 required, the governing board of each covered authority shall establish  
2 an internal audit function which operates in accordance with generally  
3 accepted professional standards for internal auditing. Any such internal  
4 audit function shall be directed by an internal audit director who shall  
5 report directly to the governing board of the authority. Internal audit  
6 director appointments shall be based on appropriate internal auditing  
7 credentials of the proposed appointee, consistent with generally  
8 accepted standards for internal auditing, including internal auditing  
9 education and experience. The internal audit function shall evaluate  
10 the authority's internal controls and operations, identify internal  
11 control weaknesses that have not been corrected and make recommendations  
12 to correct these weaknesses.

13 2. In the event the governing board does not establish an internal  
14 audit function pursuant to subdivision one of this section it shall  
15 nevertheless establish and maintain the program of internal control  
16 review required by section twenty-nine hundred thirty-one of this title.

17 § 12. Paragraph (g) of subdivision 2 of section 87 of the public offi-  
18 cers law, as added by chapter 933 of the laws of 1977, is amended to  
19 read as follows:

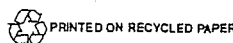
- 20 (g) are inter-agency or intra-agency materials which are not:  
21 i. statistical or factual tabulations or data;  
22 ii. instructions to staff that affect the public; [or]  
23 iii. final agency policy or determinations; [or]  
24 iv. external audits, including but not limited to audits performed by  
25 the comptroller and the federal government; or

26 § 13. Subdivision 2 of section 88 of the public officers law is  
27 amended by adding a new paragraph (j) to read as follows:

28 (j) external audits conducted pursuant to section ninety-two of the  
29 legislative law and schedules issued pursuant to subdivision two of  
30 section ninety of the legislative law.

31 § 14. The state comptroller, state agencies, covered authorities, the  
32 state legislature and the judiciary, as defined in this act, are author-  
33 ized to take all actions necessary to implement their respective inter-  
34 nal control and audit responsibilities under this act.

35 § 15. This act shall take effect immediately, and shall be deemed to  
36 have been in full force and effect on and after January 1, 1999.





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Fax cover sheet

To: Mark Buxbaum  
Company: NYS Office of the Attorney General  
Addressee fax No.: 474-0714

From: Mark Chiplock  
Return fax number: (518) 427-4499

Date: March 03, 1999

No. of pages: 2

(incl. this page)

If this fax is incomplete or illegible please telephone (518) 462 2030

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**Private and Confidential**

Mark,

Here are the changes you requested. Please let me know if you have any additional comments.

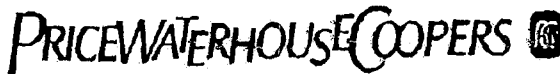
Thanks.

~~PRELIMINARY~~

Relevant  
Controls

~~DRAFT~~

Bureau	Significant Objectives	
Budget and Fiscal Management Albany	Timely and accurate processing of Office of the Attorney General (OAG) payroll information and distribution of paychecks.	Segregation of duties between Payroll and Personnel functions.  Form PR76: the transmittal form that accompanies the payroll information is reviewed and signed by one of the following: - Director of Budget and Fiscal Management. - Assistant Director of Budget and Fiscal Management.  Payroll checks in the Albany and New York City offices are claimed by designated employee from each Bureau, who must sign for the checks. For Regional Offices, a transmittal is forwarded to the office and acknowledged.
	Process cash receipts from Bureaus.	Form AC909 Report of Monies Received is approved by the Director of Budget and Fiscal Management, Assistant Director of Budget and Fiscal Management or designee.  Monthly bank reconcilliations are prepared and reviewed.  Preparation and submission of annual "Sole Custody Fund/Account Report" to Comptroller; approved by Director of Budget and Fiscal Management.
	Uphold fiduciary responsibility over funds held for claimants of defrauders.	The request for withdrawal of funds must be submitted by the Director of Budget and Fiscal Management, or designee to the Office of the State Comptroller (OSC) to obtain a release of funds from escrow. The amount of release is approved by the Director.
	Monitor current expenditures.	Expenditure levels are reported bi-weekly by the Assistant Director of Budget and Fiscal Management.
	Assess the fiscal requirements of OAG and submit an annual budget to Division of the Budget (DOB).	The budget is reviewed by the Director of Budget and Fiscal Management.
	Enter into contracts with experts to provide assistance in litigation.	The Request for Expert Witness is approved by a Bureau Chief, Division Chief, the Office of Budget and Fiscal Management, and OSC where required.  A retainer letter specifying the maximum amount that will be paid is signed by the Director or Assistant Director of Budget and Fiscal Management and submitted to the expert.
	Serve as purchasing agency for OAG, Initiate bidding process when appropriate, and ensure that payment is made within 30 days of receipt of goods and services.	A Purchase Request form or equivalent documentation is required for all purchases. All request forms or equivalent documentation are signed by the Division Chief or assigned representative.  The Purchasing Agent will review and sign all purchase requests and purchase orders.  All purchase orders are sequentially numbered.  Specific bidding procedures must be followed for all discretionary purchases unless only a sole or single source vendor can meet the needs of OAG. Informal bidding occurs for all purchases up to \$10,000 (advertised between \$5,000 and \$10,000). Any single purchase greater than \$10,000 requires competitive bids to be obtained through a formal bidding process.  Standard vouchers greater than \$10,000 are reviewed and signed by the Director of Budget and Fiscal Management.  All vouchers are sequentially numbered and are tracked by O.S.C to prevent duplicate payments.  A tracking system is in place to ensure payments are made within the required time period.



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November 13, 1998

Mr. Richard E. Warnke  
Deputy for Administration  
New York State Department of Law

This letter should be read in conjunction with management's assertion included in its representation letter dated April 21, 2000 that, except for its material weakness described therein, the New York State Department of Law's (Office of the Attorney General - "OAG") internal accounting and administrative controls maintained during the period April 1, 1998 through November 13, 1998, are adequate to meet the criteria established by the State of New York, as set forth in the "New York State Governmental Accountability, Audit and Internal Control Act of 1987" and the significant objectives and relevant internal accounting and administrative controls described in the Appendix to the representation letter. We noted certain matters involving the internal control structure and its operation, and are submitting for your consideration related recommendations designed to help the OAG make improvements and achieve operational efficiencies. Our comments reflect our desire to be of continuing assistance to the OAG.

The accompanying observations and recommendations are intended solely for the information and use of the OAG.

We appreciate the opportunity to have been of service to you and the OAG. Should you have any questions about our observations and recommendations, this letter, or other matters, please contact us at your convenience.

Very truly yours,

*PricewaterhouseCoopers LLP*



### Table of Contents

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**BUDGET AND FISCAL MANAGEMENT - ALBANY****Segregation of Duties over Cash Receipt and Disbursement Functions**

*Statement of Condition:* The individual receiving incoming checks determines which bank account the checks relate to and applies the appropriate restrictive endorsement to the checks. This person also logs the incoming checks into a spreadsheet and prepares the deposit. The same individual who writes checks, has access to the check stock as well as the authorized signature. This individual also has the authority to request a withdrawal of funds from the Short Term Investment Pool.

*Criteria:* There should be segregation of duties between custody, authorization and recordkeeping of cash.

*(Potential) Effect:* Misappropriation of assets.

*Cause:* Inadequate staffing.

*Recommendation:* We recommend segregation of duties over the cash receipt and disbursement functions be established.

**Receiving Reports not dated or signed**

*Statement of Condition:* Two receiving reports were not signed or dated.

*Criteria:* Receiving reports should be signed and dated to show evidence of the date the goods/services were received and establish responsibility for receipt.

*(Potential) Effect:* Inability to determine whether or not goods were received and by whom.

*Cause:* Not determinable

*Recommendation:* We recommend that the receiving reports be dated and signed.

**Late Payment of Invoices**

*Statement of Condition:* All invoices are not paid by OSC in accordance with the State's policy of payment within 30 days of MIR date (Merchandise/Invoice/Receive date).

*Criteria:* The Bureau is subject to the New York State prompt payment law which mandates that all invoices are to be paid within 30 days.

*(Potential) Effect:* The Bureau will incur interest charges on past due invoices.

*Cause:* Not determinable

*Recommendation:* We recommend that all payments be made within 30 days to be in compliance with New York State law.

**Deposit Slip Verification**

*Statement of Condition:* Deposit slips received by the Office of Budget and Fiscal Management from Civil Recoveries are not initialed when verified.

*Criteria:* There should be evidence that the individual from the Office of Budget and Fiscal Management has verified the deposit slip totals.

*(Potential) Effect:* Deposit slips may be overlooked and not adequately verified.

*Cause:* Not determinable

*Recommendation:* We recommend that the individual from the Office of Budget and Fiscal Management initial the deposit slip after the verification has been performed to ensure that the process is performed and to prevent deposits from being overlooked.

**HUMAN RESOURCES - ALBANY**

**Review of Changes to PACER System**

*Statement of Condition:* The PACER system does not generate a report showing the changes made to the system since the previous payroll period.

*Criteria:* The changes made to the PACER system should be monitored to ensure that accurate employee standing data are being processed.

*(Potential) Effect:* Inaccurate and/or incomplete employee data may be entered into the system, resulting in improper processing of payroll data.

*Cause:* PACER system does not generate such a report.

*Recommendation:* We recommend that the Office of the Attorney General work with the PACER administrator to generate a report that will show changes made to certain significant fields (i.e. salary, deductions) and additions and deletions from the report. Although the Office of the State Comptroller monitors significant changes such as new hires and salary adjustments, it may be beneficial for the Bureau to monitor such changes.

**CIVIL RECOVERIES - ALBANY**

**Post Dated Checks**

*Statement of Condition:* The Civil Recoveries Bureau accepts post-dated checks.

*Criteria:* The Civil Recoveries Bureau should not accept post-dated checks.

*(Potential) Effect:* Acceptance of post dated checks results in the Bureau requiring additional procedures to ensure that the checks are deposited at the appropriate time. In addition, the debtor may not have adequate funds to cover the check in the future.

*Cause:* The Bureau's current policy is to allow the acceptance of post-dated checks.

*Recommendation:* We recommend that the Bureau not accept post-dated checks. To increase the effectiveness and efficiency of collections.

**Safe Log**

*Statement of Condition:* The Civil Recoveries Bureau keeps checks in its safe overnight. These checks include post dated checks and checks that need further review. There is currently no log to indicate what is included in the safe overnight.

*Criteria:* The Civil Recoveries Bureau should maintain a log of items included in the safe.

*(Potential) Effect:* Misappropriation of assets

*Cause:* Not determinable.

*Recommendation:* If items must be maintained overnight we recommend that the Bureau maintain a log of items left in the safe overnight.

**ADMINISTRATIVE OPERATIONS AND SERVICES MANAGEMENT - ALBANY**

**Fixed Asset Inventory Updates**

*Statement of Condition:* The active inventory log is not updated in a timely manner. Legal technology is shipping items out of the warehouse without notifying the supervisor of Administrative Operations and Services Management (AOSM). Therefore, the active inventory log that the supervisor maintains, may not contain current information.

*Criteria:* The active inventory log should contain up to date information on the status of each active inventory item.

*(Potential) Effect:* The active inventory items are difficult to locate and track.

*Cause:* Lack of communication between Legal Technology and AOSM

*Recommendation:* We recommend that Legal Technology inform AOSM immediately of any updates regarding active inventory.

**INVESTOR PROTECTION AND SECURITIES - NEW YORK CITY**

**Review of Complaints**

*Statement of Condition:* Customer complaints received by the Investor Protection and Securities Bureau are reviewed by the Bureau chief, but this review is not evidenced.

*Criteria:* There should be evidence that the Bureau Chief has reviewed the customer complaint.

*(Potential) Effect:* Customer complaints may be overlooked and not adequately resolved.

*Cause:* Not determinable

*Recommendation:* We recommend that the Bureau Chief initial the customer complaint after the review has been performed to ensure that the process is performed and to prevent complaints from being overlooked.

**CHARITIES - NEW YORK CITY**

**Delinquency Letters**

*Statement of Condition:* The computer system used by the Charities Bureau cannot automatically generate delinquency letters, when the required documents have not been received by the deadline.

*Criteria:* This process should be automated.

*(Potential) Effect:* Since there are more than 35,000 files, this task can not be efficiently accomplished without adequate software support.

*Cause:* When the system was installed this feature was deleted.

*Recommendation:* We recommend that the Bureau discuss with its software technicians the possibility of reinstalling this functionality.

**Internal Control Audit Response**

**"Comprehensive Formal Policies and Procedures**

"The Office of the Attorney General implemented a bureau reorganization subsequent to the internal control review performed April 1, 1998 through November 13, 1998. Responsibilities were reorganized, and allocated across a new organizational model.

"The Office of the Attorney General does not have a formal policies and procedures manual to outline key review and approval procedures, case monitoring procedures, documentation policies and procedures to evidence review and approval, or formal document retention policies as it relates to the aforementioned. We have found diversity in practice across bureaus as it relates to evidence of review and approval, document retention and case management. Examples of observations, and root causes are noted below:"

Bureau	Observation	Root Cause	Reference to Matrix
Human Resources - Albany	A request to fill must be approved by the Division Head, Director of Human Resources and Deputy of Administration to hire a new employee.		
	Documentation to evidence approval of the request to fill is not retained in the files consistently- for seven employees; documentation was not retained in the files. Email was provided to evidence review, but there is no formal policy, procedure or documentation retention process in place to outline the Bureau's retention responsibility.	(1), (2)	A1
	Documentation (sign off) by time auditor was not maintained for all time sheets uniformly as the informal policy is to perform the review but does require evidence of the review.	(1), (2)	A2

**Bureau Chief Response:**

- ◆ "A request to fill must be approved by the Division Head, Director of Human Resources and Deputy of Administration to hire a new employee." **This observation should be revised, as the Director of Human Resources does not approve requests to fill positions.**
- ◆ "Documentation to evidence approval of the request to fill is not retained in the files consistently- for seven employees; documentation was not retained in the files." **This observation correctly notes that a written procedure does not exist for the retention of documentation granting approval to fill positions. However, it should be noted that competitive recruitment is not initiated without the express approval from the appropriate level of agency authority. Although in many instances we may have it on record, it is neither necessary nor required to retain evidence of this approval once a position is filled.**
- ◆ "Documentation (sign off) by time auditor was not maintained for all time sheets uniformly as the informal policy is to perform the review but does require evidence of the review." **We do, in fact, require that the time auditor initial or sign the sheet upon completion of the audit. While when the audit was initiated this was not the case with MFCU time sheets, the procedure was then implemented. With the exception of MFCU, the perceived absence of initials was the result of poor copies sent by fax. Better copies were subsequently secured that contained the appropriate signatures.**

Budget and Fiscal Management Bureau - Albany	OAG enters into contracts with expert witnesses to provide assistance in litigation. The expert witnesses are paid for the services performed. OAG's current informal policy is that it is up to lawyer discretion whether or not a retainer letter is sent to the expert witness, which would specify		
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	<p>the maximum amount to be paid for services rendered, and scope of services to be performed. As guidelines have not been established for what will require a contract, there will be differences in the application of the informal policy, which includes procurement. Practice may be inconsistent with standard procurement procedure in this instance. The bureau could be liable for higher fees than originally agreed upon.</p>	(2)	B1
	<p>Payroll checks in the Albany and New York City offices are claimed by a designated employee from each Bureau, who must sign for the checks. Only the most recent payroll is retained to evidence review.</p>	(2)	B2

Bureau Chief Response:

- ◆ “As guidelines have not been established for what will require a contract there will be differences in the application of the informal policy, which includes procurement.” **This statement is not accurate. When obtaining services which are expected to exceed \$15,000, The New York State Finance Law requires agencies to initiate a bidding process. This results in a contract in which the dollar amount cannot be exceeded without a formal contract amendment. Services obtained for less than \$15,000 do not require a contract, but the OAG uses a Retainer Letter specifying a fixed dollar amount. A copy of the OAG’s Expert Services Policy detailing these requirements is available on the OAG’s intranet and was provided to the Auditors.**
  
- ◆ “Practice may be inconsistent with standard procurement procedure in this instance.” **In practice, the “No Retainer Letter” option is rarely used and when used requires a written explanation. It is reserved for cases where fixed price work (IME) is performed, or when the work will be completed within a very brief timeframe. As indicated in the policy, the Budget and Fiscal Management Bureau makes the final determination on whether a Retainer Letter is issued.**
  
- ◆ “The bureau could be liable for higher fees than originally agreed upon.” **This statement is not accurate, as an approved expert request form specifies the payment to which the expert is entitled, regardless of whether a Retainer Letter is issued.**
  
- ◆ “Only the most recent payroll is retained to evidence review.” **It is unclear why this statement is included in the Auditors’ comments, as is it neither revelant nor is there a matrix reference made to this. Additionally, pursuant to the New York State Archive and Retrieval Act, only the latest payroll payment record must be retained.**

Real Property – Albany	<p>The Real Property Bureau-Regional Office Standard Operating Manual was last revised on February 15, 1991. Updates to this manual are sent via emails and memos, which are not retained or included in a centralized location, externally or electronically. Therefore, when providing legal assistance to State Agencies, there is a risk that outdated policies and procedures may be communicated.</p>	(1)	C1
	<p>Forms used to evidence tracking of cases are not standardized. There were many different forms used to achieve the same objective.</p>	(1)	C2

Bureau Chief Response:

- ◆ "The Real Property Bureau- Regional Office Standard Operating Manual was last revised on February 15, 1991. Updates to this manual are sent via e-mails and memos, which are not retained or included in a centralized location, externally or electronically. Therefore, when providing legal assistance to State Agencies, there is a risk that outdated policies and procedures may be communicated." **The Real Property Bureau Regional Office Standard Operating Manual was last revised in February of 1999; perhaps the 1991 date referenced by the Auditors is a typographical error. It incorporates all memoranda subsequently issued which supplement or modify the procedures set forth therein.**
  
- ◆ "Forms used to evidence tracking of cases are not standardized. There were many different forms used to achieve the same objective." **This statement is perplexing, as the official tracking forms used by the Bureau are highly standardized.**

Environmental Protection - New York City	A complaint log is not maintained. Complaint referrals are received via email and relevant environmental referrals are sent to the Bureau, however, there is no formal mechanism in place to monitor the assignment, progress and distributions of referrals.	(1)	D1
	No formal evidence of review with bureau lawyers is retained. No formal reports on progress are retained.	(2)	D2

Bureau Chief Response:

- ◆ "A complaint log is not maintained. Complaint referrals are received via email ... [and] there is no formal mechanism in place to monitor the assignment, progress, and distributions of referrals." **This observation appears to confuse a complaint in the sense of a call from the public complaining about some environmental condition and a complaint, as in a legal pleading filed with the court. It also appears to confuse complaints with referrals. Referrals for legal action from agencies are, in fact, logged in and assigned to particular lawyers. The progress of that case is then tracked (see point 2 below). The Bureau keeps several redundant logs of referrals, just to be sure none are missed. In addition, cases are entered into the computer system and can be tracked that way. Not all referrals will lead to the filing of a (judicial) complaint. Some referrals are for defensive action. Others can be resolved without going to court. To the extent this observation is discussing complaints from the public, it is also mistaken. The two members of the Bureau who receive most calls from the public, and to whom such calls are directed, maintain a log of such calls. They are reviewed by the Bureau Chief as appropriate. To the extent complaints come in via the OAG's Central office, the Communications Office keeps a log.**
  
- ◆ "No formal evidence of review with bureau lawyers is retained. No formal reports on progress are retained." **This is incorrect. First, yearly evaluations of lawyers are conducted and the documents are maintained in Environmental Protection Bureau and Human Resource files. Second, additional reviews of lawyers occurs within the Bureau and the Bureau keeps the annual and semi-annual case summaries that the lawyers prepare. Third, the Bureau maintains an Access computer system that tracks case progress. Fourth, we have regular manager meetings to discuss cases, the managers have regular meetings with their sections to ensure cases are progressing properly, and the Bureau meets (semi) regularly with DEC, our primary client agency, to discuss case progress. Finally, the Bureau provided the Auditors with multiple samples of memos prepared by Bureau attorneys summarizing their case status.**

Consumer Frauds and Protection – Albany and New York City	Evidence of case initiation approval by the Bureau Chief and evidence of periodic review of cases by the Bureau chief is not retained.	(2)	E1
	In the event of discontinuance on a batch of assurances, evidence of the approval signature by the Bureau Chief on each case is not retained. It is the informal policy that the Bureau Chief signature on one assurance in a batch of assurances is evident of review and approval of all assurances in that batch.	(2)	E2

Bureau Chief Response:

- ◆ "Evidence of case initiation approval by the Bureau Chief and evidence of periodic review of cases by the Bureau Chief is not retained." **The Bureau Chief notes that he does not retain evidence of approval of case initiation, as no attorney would initiate a case without prior approval. "Evidence of periodic review of cases" is somewhat different. The Bureau does periodic case reviews and the Deputy Bureau Chief typically takes and keeps handwritten notes during these reviews. The Bureau Chief notes that the OAG's policy states that all briefs and other legal documents are to be reviewed either by the Bureau Chief or his Deputy. When the Auditors requested written evidence that this policy was being followed, it was not available because, although nothing goes out without the Bureau Chief's review and approval, drafts or written evidence of approval of the final product are not retained.**
  
- ◆ "It is the informal policy that the Bureau Chief signature on one assurance in a batch of assurances is evident of review and approval of all assurances in that batch." **The Bureau Chief notes that the particular "batch" referenced had nearly 20 identical assurances in a sweep of jewelry stores selling phony 10K gold jewelry and, due to time constraints, he authorized a couple to be signed in his absence at the time solely by the staff attorney. As he had approved the originals and the terms of the others were identical, this signature delegation was not a true delegation of approval authority.**

Anti Trust– New York City	A complaint log is not maintained. Complaint referrals are received via phone to specific attorneys; however, there is no formal mechanism in place to monitor the assignment, progress and distributions of referrals.	(1)	F1
	Significant changes in case status must be approved by the Department Head of Public Advocacy. Review and approval of these actions are done via email and verbal communication. Emails were provided to evidence review, but there is no formal policy, procedure or documentation retention process in place to outline the Bureau's retention responsibility.	(2)	F2
	There is no evidence of the periodic review of open cases with the Bureau Chief. The annual report to Eliot Spitzer is retained.	(2)	F3

Bureau Chief Response:

- ◆ "A complaint log is not maintained. Complaint referrals are received via phone to specific attorneys; however, there is no formal mechanism in place to monitor the assignment, progress and distributions of referrals." **There is a "log" maintained by a Bureau secretary, however, the Bureau Chief believes it could be more detailed. He intends to assign one of the Bureau's para-legals to maintain a computerized spread-sheet.**
  
- ◆ "Significant changes in case status must be approved by the Department [sic, Division] Head of Public Advocacy. Review and approval of these actions are done via email and verbal communications. Emails were provided to evidence review, but there is no formal policy, procedure or documentation retention process in place to outline the Bureau's retention responsibility." **If the Auditors mean**



significant changes in case status are not evidenced by a particular form of record, which is in turn retained in an identifiable location, that is accurate.

- ◆ "There is no evidence of the periodic review of open cases with the Bureau Chief. The annual report to Eliot Spitzer is retained." If "periodic review" refers to more often than yearly, that is accurate; only the annual report is retained.

Criminal Prosecutions— Albany	Approval of case initiation by the Bureau Chief or Section Chief, approvals for bringing the case to grand jury by the Bureau Chief or Deputy Bureau Chief, and plea negotiation approvals by the Bureau Chief or Deputy Bureau Chief are not formally documented, therefore, there is no evidence of approval retained.	(2)	G1
	Only the latest monthly open case report is retained as evidence to support case review. Previous open case reports are discarded. There is no formal document retention policy in place as it relates to the maintenance of these reports.	(2)	G2

Bureau Chief Response:

- ◆ "Approval of case initiation by the Bureau Chief or Section Chief, approvals for bringing the case to grand jury by the Bureau Chief or Deputy Bureau Chief, and plea negotiation approvals by the Bureau Chief or Deputy Bureau Chief are not formally documented, therefore, there is no evidence of approval retained." **First, this observation should be clarified: A Deputy Bureau Chief may approve bringing a matter to the grand jury. Second, it should be noted that this is not a large Bureau and does not present dozens of cases to the grand jury. At a minimum these decisions are aired between the AAG and the supervisor, and usually several supervisors participate, that is, a Section Chief, a Deputy and the Bureau Chief. In Buffalo a senior supervising assistant also participates in each such decision. Frequently the Division Chief participates and at times the First Deputy to the Attorney General participates. As these are significant decisions, as are plea decisions, the process can generally be evidenced by questioning the participants. Given the extensive participation, written documentation was not necessary.**
- ◆ "Only the latest monthly open case report is retained as evidence to support case review. Previous open case reports are discarded. There is no formal document retention policy in place as it relates to the maintenance of these reports." **This statement is not accurate. The Bureau Chief has copies of all that have been created in recent years.**

Appeals and Opinions – New York City	Documentation relating to the approval to appeal or denial of appeal is performed primarily through the use of email or telephone discussion. Therefore, evidence of the approval of the appeal decision is not retained.	(1)	H1
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Bureau Chief Response:

- ◆ "Evidence of the approval of the appeal decision is not retained." **This statement is inaccurate. In all cases, the original (yellow sheet) of the appeal recommendation form is retained, and copies of the forms are forwarded to Albany with comment whether the appeal was approved or denied. This information is kept in Albany for statistical purposes. The original is retained in New York City and was available to the Auditors.**

Civil Rights-- New York City	There is no evidence of the weekly periodic review of open cases with the Bureau Chief. Handwritten notes are available in some cases.	-1	I1
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Bureau Chief Response:

- ◆ "There is no evidence of the weekly periodic review of open cases with the Bureau Chief. Handwritten notes are available in some cases." **This appears to be an accurate assessment of the Bureau's method of operation.**

Investment Protection - New York City	There is no evidence of review and approval of franchise and theatrical filings.	-1	J1
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Bureau Chief Response:

- ◆ "There is no evidence of review and approval of franchise filings." **This statement is inaccurate. The Bureau maintains an extensive data base on franchises which is updated at the time of each new filing. Each time the Bureau enters the filing received date, the name of the examiner, the date any comment letters were sent out, and the date the filing was accepted by the examiner. The Bureau's policy is that an acceptance for filing indicates an approval. If the filing has not yet been accepted, the database will show that too.**
- ◆ "There is no evidence of review and approval of theatrical filings." **For theatricals there is a basic filing system with index cards showing which filings were accepted. While we maintain in Albany an inventory of files, only those forwarded would have been accepted. We are instituting a change so that theatrical filings are put into a database that will show all the necessary information.**

Health Care-- Albany	Evidence of case initiation and litigation document review is not retained. Review notes may be available.	-1	K1
	No formal evidence of review with lawyers is retained.		K2

Bureau Chief Response:

- ◆ "Evidence of case initiation and litigation document review is not retained. Review notes may be available" **There may be some confusion as records were reviewed in Albany and did not always include the Bureau Chief's records. The Bureau Chief reviews all litigation documents and settlement documents and keeps them in his files in New York City. On final drafts that have been reviewed by the Division Head, the Bureau Chief notes that on the draft which contains his comments and sign off. Once a case is initiated, it is assigned an attorney and recorded on the Bureau's Case Memo list, with that attorney's initials and with milestones for the case.**
- ◆ "No formal evidence of review with lawyers is retained." **If this comment refers to review of legal documents, the Bureau Chief retains all copies of such with his comments and notes as to decisions made on final wording, negotiation strategy, etc.**

Legal Technology-- Albany	OAG's change control policy requires that users request program changes via a "Change Control Request Form". However, users also request program changes via email and phone call, therefore, they	(3)	L2
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	<p>do not consistently follow procedures.</p> <p>Users do not consistently sign off on acceptance of program changes or testing to indicate approval of changes made by programmer/developers.</p> <p>It is the policy of OAG that system software changes are to be tested before installation. However, documentation of the testing and the results, issues noted, and solutions are not retained.</p> <p>Formal logs are not maintained for problems noted in daily batch processing. Instead, the operators perform on-line monitoring of job processing. Production problem resolution procedures are not formally documented.</p> <p>Several static tables, called Reference Tables, can be updated by IT directly. There is no logging or monitoring of direct data changes made to these tables by programmers/developers.</p>	<p>(1)</p> <p>(1)</p> <p>(1)</p> <p>(1), (2)</p>	<p>L3</p> <p>L4</p> <p>L1</p> <p>L5</p>
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Bureau Chief Response:

- ◆ “OAG’s change control policy requires that users request program changes via a ‘Change Control Request Form’. However, users also request program changes via email and phone call, therefore, they do not consistently follow procedures.” **The Change Control Request Form is used within the Legal Technology Bureau to certify that testing has been completed and to authorize the transfer of the program to production. It is not used by end users to request program changes. Within recent months, a Project Request Document has been developed which allows users to request new projects. For agency-wide applications, there is a subcommittee of the Steering Committee which authorizes requested changes. This authorization can be in writing (e-mail acceptable) or verbally. If verbal, a confirmation documenting the authorization is sent. For Bureau specific applications, a user-Bureau’s designated contact authorizes changes in writing (e-mail acceptable) or verbally. If verbal, a confirmation documenting the authorization is sent. When necessary, the Legal Technology Bureau assumes the responsibility of preparing written documentation in an effort to be customer service oriented.**

**NB: “Root Cause 3” is not explained in the PWC draft, although it is referenced in this section of the PWC report.**

- ◆ “Users do not consistently sign off on acceptance of program changes or testing to indicate approval of changes made by programmer/developers.” **Users do approve program changes before programs are transferred to production. If the approval is verbal, a confirmation documenting the approval is sent. If no approval is received, changes are not moved to production.**
- ◆ “It is the policy of OAG that system software changes are to be tested before installation. However, documentation of the testing and the results, issues noted, and solutions are not retained.” **System software is loaded and tested in a test environment prior to deployment into production. Any problems, configuration changes or modifications are noted. These modifications are applied to the production system during the implementation. The Legal Technology Bureau retains all testing documentation.**

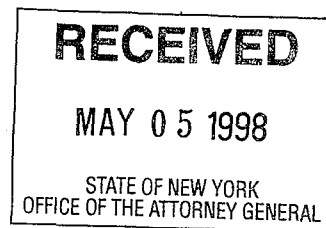
- ◆ **"Formal logs are not maintained for problems noted in daily batch processing. Instead, the operators perform on-line monitoring of job processing. Production problem resolution procedures are not formally documented." Nightly As400 jobs are checked on-line. Any problems which occur are addressed and the jobs are completed. The Legal Technology Bureau will create daily batch processing logs and note the results.**
  
- ◆ **"Several static tables, called Reference Tables, can be updated by IT directly. There is no logging or monitoring of direct data changes made to these tables by programmers/developers." The reference tables include pick-lists such as states, counties, zip codes and other standardized values. The reference tables need to be maintained centrally to ensure consistent data. Historically, reference tables maintained by end users contain multiple variations of even simple values, such as "New York", "NY" or "N. Y." as acceptable abbreviations for our state. This makes searching and reporting cumbersome and prone to error. Entries to reference tables used by specific applications are approved by either the application workgroup or bureau contacts. The OAG's current standards require that reference tables contain columns identifying the date created, the date last modified and the user ID of the person who created or last modified the entry. Most values from the reference tables are copied into rows in the application tables, so that changes to the reference tables do not have a ripple effect on the accuracy of existing records. The risk of damaging data is low, and the Legal Technology Bureau has a way to identify the person who made the change in question. Additional controls, while possible, would not significantly lessen the already low risk.**

**PROGRAM BILL # 153**

**GOVERNOR'S PROGRAM BILL**

**1998**

**MEMORANDUM**



**AN ACT** to amend chapter 814 of the laws of 1987 amending the state finance law and other laws relating to systems of internal control, in relation to extending the New York State governmental accountability, audit and internal control act; to amend the state finance law, the executive law, the legislative law, the judiciary law and the public authorities law, in relation to systems of internal control

Purpose:

This bill makes permanent the New York State Governmental Accountability, Audit and Internal Control Act of 1987 (the "Act") and amends the Act to reflect current internal control professional standards for private and public organizations.

Summary of Provision:

Effective January 1, 1999, the bill makes permanent Chapter 814 of the Laws of 1987, and:

- Amends the State Finance Law to make the Act's definition of "internal controls" consistent with that included in generally accepted auditing standards. These standards define internal controls as the managerial actions taken by public and private entities to ensure that resources are managed so as to give "reasonable assurance that the organization will achieve its mission."
- Amends the State Finance Law to update the State Comptroller's responsibilities by specifically authorizing the Comptroller to issue internal control audit standards.
- Amends the Executive Law and the Public Authorities Law to update the definition of internal controls and the related responsibilities of State agencies, amends the Executive Law to delete the current requirement that internal auditors hold exempt positions, and extends the interval between independent audits from two to four years for the Executive Chamber, Division of the Budget, Department of Law, and Department of Audit and Control.

- Amends the Legislative Law and the Judiciary Law to update the definition of internal controls, and extends the interval between independent audits from two to four years for the Legislature and the Judiciary.

Existing Law:

The Act, which will expire on December 31, 1998, covers over 100 State agencies and authorities including the Executive Chamber, Division of the Budget, Department of Audit and Control, Department of Law, the Legislature and the Judiciary. The Act requires that covered entities maintain appropriate internal controls and review them periodically.

Legislative History: Chapter 814 was originally enacted in 1987 and has not been amended.

Statement in Support:

The Act established the statutory foundation for a comprehensive system of internal controls to enhance the integrity of governmental operations. By establishing appropriate standards, the Act has ensured that the State's internal controls provide reasonable oversight of State operations, and that State assets and resources are appropriately protected and managed.

The standards set forth by the Act are among the most rigorous of those of any states. Among other requirements, State entities must have defined controls in both financial and programmatic areas, meet the Act's internal control review requirements, and undergo periodic audits by the State Comptroller. Moreover, the Act requires audits by independent firms of the Executive Chamber, Division of the Budget, Department of Law, Department of Audit and Control, the Legislature and the Judiciary.

To meet these statutory standards, nearly all operating organizations have implemented effective internal controls, which have revealed and eliminated many weaknesses. In addition, the management of 34 agencies with vulnerable operations have appointed internal auditors and now benefit from on-going analysis of operating and fiscal issues. These auditors report directly to their agency heads.

By making the Act permanent, the State will preserve and build on the progress made during the past ten years. Continuation of these systems will pay added dividends through better management of programs, improved accountability of agency managers, and assurance that citizens' tax moneys are spent in a responsible manner.

Budget Implications:

This bill carries no fiscal implications for State agencies and authorities because they already have in place the personnel and resources to fulfill their internal control

responsibilities. The bill will continue on a permanent basis internal control activities and processes which ensure that State funds and resources are used efficiently and effectively.





LBDC

**PROGRAM BILL #153**

AN ACT to amend chapter 814 of the laws of 1987 amending the state finance law and other laws relating to systems of internal control, in relation to extending the New York state governmental accountability, audit and internal control act; to amend the state finance law, the executive law, the legislative law, the judiciary law and the public authorities law, in relation to systems of internal control

The People of the State of New York, represented in Senate and Assembly, do enact as follows:

1 Section 1. Section 1 of chapter 814 of the laws of 1987, amending the  
2 state finance law and other laws relating to systems of internal  
3 control, is amended to read as follows:

4 Section 1. Short title. This act shall be known and may be cited as  
5 the "New York state governmental accountability, audit and internal  
6 control act [of 1987]".

7 § 2. Section 2-a of the state finance law, as added by chapter 814 of  
8 the laws of 1987, is amended to read as follows:

9 § 2-a. Additional definitions. As used in subdivisions two-b and  
10 two-c of section eight of this chapter, the following terms shall have  
11 the following meanings:

12 1. "Internal controls". [Internal controls encompass the plan of  
13 organization and all of the coordinate methods and measures adopted  
14 within an organization to safeguard its assets, check the accuracy and  
15 reliability of its accounting data, promote operational efficiency and  
16 encourage adherence to prescribed managerial policies. Internal controls  
17 encompass both internal administrative controls and internal accounting  
18 controls.

1 2. "Internal administrative controls". The plan of organization and  
2 procedures and records that are concerned with the decision processes  
3 leading to management's authorization of transactions.

4 3. "Internal accounting controls". The plan of organization and the  
5 procedures and records that are concerned with the safeguarding of  
6 assets and the reliability of financial records and consequently are  
7 designed to provide reasonable assurance that:

8 a. financial transactions are executed in accordance with manage-  
9 ment's general or specific authorization;

10 b. such transactions are recorded in conformity with generally  
11 accepted accounting principles or other applicable criteria and to main-  
12 tain accountability for assets;

13 c. access to assets is permitted only in accordance with management's  
14 authorization; and

15 d. the recorded accountability for assets is compared with the exist-  
16 ing assets at reasonable intervals and appropriate action is taken with  
17 respect to any differences] Internal control, as set forth in generally  
18 accepted standards, is the integration of the activities, plans, atti-  
19 tudes, policies, systems, resources and efforts of the people of an  
20 organization which, working together, provide a reasonable assurance  
21 that the organization will achieve its mission.

22 [4] 2. "Internal audit". An appraisal activity established by the  
23 management of an organization for the review of operations as a means of  
24 assuring conformance with management policies and the effectiveness of  
25 internal [administrative and accounting] controls, and conducted in  
26 conformance with generally accepted standards for internal auditing.

27 [5] 3. "State agency". Any state department, state university of New  
28 York, city university of New York, board, bureau, division, commission,

1 committee, council, office or other governmental entity performing a  
2 governmental or proprietary function for the state, or any combination  
3 thereof as provided in subdivision two of section nine hundred fifty-one  
4 of the executive law, except any public authority or public benefit  
5 corporation, the judiciary or the state legislature.

6 [6] 4. "Judiciary". The courts and court-related programs, including  
7 the office of court administration, of the state-funded portion of the  
8 unified court system and all components thereof as provided in subdivi-  
9 sion two of section two hundred forty-nine-a of the judiciary law.

10 [7] 5. "State legislature". The legislature of the state of New York,  
11 including all components thereof as provided in subdivision two of  
12 section ninety of the legislative law.

13 [8] 6. "Covered authority". Any public authority or public benefit  
14 corporation, other than a bi-state authority or public benefit corpo-  
15 ration, a majority of whose members are appointed by the governor or  
16 serve as members by virtue of holding state offices to which they were  
17 appointed by the governor, or any combination thereof.

18 § 3. Subdivisions 2-b and 2-c of section 8 of the state finance law,  
19 as added by chapter 814 of the laws of 1987, are amended to read as  
20 follows:

21 2-b. For the purposes of the New York state governmental accountabil-  
22 ity, audit and internal control act [of 1987], assist in the development  
23 and implementation of an audit program for the state by:

24 a. Either as part of one or more audits, or separately, conducting  
25 periodic audits of internal controls and operations of state agencies  
26 (other than those state agencies for which an audit is required pursuant  
27 to sections nine hundred fifty-three and nine hundred fifty-four of the  
28 executive law) and covered authorities. All such audits shall be

1 performed in accordance with generally accepted auditing standards.  
2 Nothing in the New York state governmental accountability, audit and  
3 internal control act [of 1987] shall be deemed to diminish or impair the  
4 comptroller's power to audit and authority to supervise accounts under  
5 articles V and X of the state constitution and this chapter. The audits  
6 shall identify internal control weaknesses that have not been corrected  
7 and actions that are recommended to correct these weaknesses. If any  
8 such internal control weaknesses are significant or material with  
9 respect to the operations of the agency that is the subject of the  
10 audit, the comptroller shall so state. The comptroller shall make avail-  
11 able to the public the results of any such audits.

12 b. Providing technical assistance to state agencies and covered  
13 authorities and, upon request, to the state legislature and the judici-  
14 ary in the implementation of internal audit functions, which shall be  
15 consistent with generally accepted standards for internal auditing and,  
16 upon request, interpret such standards.

17 2-c. Provide technical assistance, including the issuance of internal  
18 control standards, to state agencies and covered authorities and, upon  
19 request, to the state legislature and the judiciary in the implementa-  
20 tion and periodic evaluation of internal accounting controls, which  
21 shall be consistent with generally accepted standards for internal  
22 accounting control and, upon request, interpret such standards.

23 § 4. Sections 950, 951, 952, 953 and 954 of the executive law, as  
24 added by chapter 814 of the laws of 1987, are amended to read as  
25 follows:

26 § 950. Definitions. As used in this article, the following terms shall  
27 have the following meanings: 1. "Internal controls". [Internal controls  
28 encompass the plan of organization and all of the coordinate methods and

1 measures adopted within an organization to safeguard its assets, check  
2 the accuracy and reliability of its accounting data, promote operational  
3 efficiency and encourage adherence to prescribed managerial policies.  
4 Internal controls encompass both internal administrative controls and  
5 internal accounting controls.

6 2. "Internal administrative controls". The plan of organization and  
7 procedures and records that are concerned with the decision processes  
8 leading to management's authorization of transactions.

9 3. "Internal accounting controls". The plan of organization and the  
10 procedures and records that are concerned with the safeguarding of  
11 assets and the reliability of financial records and consequently are  
12 designed to provide reasonable assurance that:

13 a. financial transactions are executed in accordance with management's  
14 general or specific authorization;

15 b. such transactions are recorded in conformity with generally  
16 accepted accounting principles or other applicable criteria and to main-  
17 tain accountability for assets;

18 c. access to assets is permitted only in accordance with management's  
19 authorization; and

20 d. the recorded accountability for assets is compared with the exist-  
21 ing assets at reasonable intervals and appropriate action is taken with  
22 respect to any differences] Internal control, as set forth in generally  
23 accepted standards, is the integration of the activities, plans, atti-  
24 tudes, policies, systems, resources and efforts of the people of an  
25 organization which, working together, provide a reasonable assurance  
26 that the organization will achieve its mission.

27 [4] 2. "Internal audit". An appraisal activity established by the  
28 management of an organization for the review of operations as a means of

1 assuring conformance with management policies and the effectiveness of  
2 internal [administrative and accounting] controls, and conducted in  
3 conformance with generally accepted standards for internal auditing.

4 [5] 3. "State agency". Any state department, state university of New  
5 York, city university of New York, board, bureau, division, commission,  
6 committee, council, office or other governmental entity performing a  
7 governmental or proprietary function for the state, or any combination  
8 thereof as provided in subdivision two of section nine hundred fifty-one  
9 of this article, except any public authority or public benefit corpo-  
10 ration, the judiciary or the state legislature.

11 [6] 4. "Judiciary". The courts and court-related programs, including  
12 the office of court administration, of the state-funded portion of the  
13 unified court system and all components thereof as provided in subdivi-  
14 sion two of section two hundred forty-nine-a of the judiciary law.

15 [7] 5. "State legislature". The legislature of the state of New York,  
16 including all components thereof as provided in subdivision two of  
17 section ninety of the legislative law.

18 [8] 6. "Covered authority". Any public authority or public benefit  
19 corporation, other than a bi-state authority or public benefit corpo-  
20 ration, a majority of whose members are appointed by the governor or  
21 serve as members by virtue of holding state offices to which they were  
22 appointed by the governor, or any combination thereof.

23 § 951. Internal control responsibilities. 1. The head of each state  
24 agency shall:

25 a. establish and maintain for the agency guidelines for a system of  
26 internal controls;

27 b. establish and maintain for the agency a system of internal controls  
28 and a program of internal control review. The program of internal

1 control review shall be designed to identify internal control weaknesses  
2 [and], identify actions that are needed to correct these weaknesses,  
3 monitor the implementation of necessary corrective actions and period-  
4 ically assess the adequacy of the agency's internal controls;

5 c. make available to each officer and employee of the agency a clear  
6 and concise statement of the generally applicable management policies  
7 and standards with which the officer or employee of such agency [will]  
8 shall be expected to comply. Such statements shall emphasize the impor-  
9 tance of effective internal controls to the agency and the responsibil-  
10 ity of each officer and employee for effective internal controls;

11 d. designate an internal control officer, who shall report to the head  
12 of the agency or their designee within the executive office, to imple-  
13 ment and review the internal control responsibilities established pursu-  
14 ant to this section;

15 e. implement education and training efforts to ensure that officers  
16 and employees within such agency have achieved adequate awareness and  
17 understanding of internal control standards and, as appropriate, evalu-  
18 ation techniques; and

19 f. periodically evaluate the need for an internal audit function.

20 2. In order to identify all state agencies and their responsibilities  
21 for the purposes of implementing the provisions of this article, the  
22 director of the division of the budget shall issue and, at [his] the  
23 director's discretion, periodically revise a schedule which lists all  
24 covered state agencies.

25 § 952. Internal audit responsibilities. 1. The director of the divi-  
26 sion of the budget, after reviewing the evaluation of the head of each  
27 state agency as to the need for an internal audit function, shall issue  
28 and, at [his] the director's discretion, periodically revise a schedule

1 of state agencies (other than the department of audit and control and  
2 the department of law) which are required to establish and maintain an  
3 internal audit function. The comptroller and the attorney general or  
4 their designees shall determine, and periodically review such determi-  
5 nation of, whether an internal audit function within their respective  
6 departments is required. Establishment of such function shall be based  
7 upon an evaluation of exposure to risk, costs and benefits of implemen-  
8 tation, and any other factors that are determined to be relevant. The  
9 head of each state agency listed in the budget director's schedule, and  
10 the comptroller and the attorney general if they or their designees so  
11 determine, shall establish an internal audit function which operates in  
12 accordance with generally accepted professional standards for internal  
13 auditing. Any such internal audit function shall be directed by an  
14 internal auditor who shall report directly to the head of such state  
15 agency. Notwithstanding any other provision of law, each internal audi-  
16 tor shall be appointed by the head of the agency, and except in the case  
17 of the department of audit and control and department of law, such  
18 appointment shall be subject to the approval of the director of the  
19 budget. The position of internal auditor shall [be an exempt position]  
20 reflect the qualifications of generally accepted auditing standards for  
21 internal auditors. For agencies for which an independent audit is not  
22 required pursuant to sections nine hundred fifty-three and nine hundred  
23 fifty-four of this article, the internal audit function shall evaluate  
24 the agency's internal controls and operations. The internal audit func-  
25 tion shall also identify internal control weaknesses that have not been  
26 corrected and make recommendations to correct these weaknesses.

27 2. In the event the head of a state agency does not establish an  
28 internal audit function pursuant to subdivision one of this section, he



1 or she shall nevertheless establish and maintain the program of internal  
2 control review required by section nine hundred fifty-one of this arti-  
3 cle.

4 § 953. Independent audits of the executive chamber and the division of  
5 the budget. 1. At least once every [two] four years, the independent  
6 certified public accountant or accountants selected pursuant to this  
7 section shall conduct audits of the internal controls of the executive  
8 chamber and the division of the budget, either as a single audit or  
9 separately. Such audits shall be performed in accordance with generally  
10 accepted auditing standards and shall include a report on whether the  
11 executive chamber and division of the budget's internal accounting  
12 controls and internal administrative controls are established and func-  
13 tioning in a manner that provides reasonable assurance that they meet  
14 the objectives of internal controls as defined in section nine hundred  
15 fifty of this article. The report shall identify the internal controls  
16 both evaluated and not evaluated and shall identify internal control  
17 weaknesses that have not been corrected and actions that are recommended  
18 to correct these weaknesses. If any such internal control weaknesses are  
19 significant or material with respect to the entity, the independent  
20 auditor shall so state. The governor and the director of the budget  
21 shall make available to the public the results of such audits, including  
22 any related management letters. The governor and director of the budget  
23 and any officer or employee of the executive chamber and the division of  
24 the budget shall make available upon request to such independent certi-  
25 fied public accountants all books and records relevant to such independ-  
26 ent audits.

27 2. The governor and the director of the budget, either separately or  
28 jointly, shall request proposals from independent certified public

1 accountants for audits of the internal controls of the executive chamber  
2 and the division of the budget. The requests for proposals shall include  
3 a reference to the requirements for audits conducted pursuant to subdi-  
4 vision one of this section. The governor and the director of the budget  
5 shall select such independent auditor or auditors in accordance with a  
6 competitive procedure including an evaluation, based on quality and  
7 price factors, of those proposals received in response to such requests  
8 for proposals. No contract for an independent auditor may extend for  
9 more than four years.

10 § 954. Independent audits of the department of audit and control and  
11 the department of law. 1. At least once every [two] four years, the  
12 independent certified public accountants selected pursuant to this  
13 section shall conduct audits of the internal controls of the department  
14 of audit and control and the department of law, respectively. Such  
15 audits shall be performed in accordance with generally accepted auditing  
16 standards and shall include a report on whether the departments' inter-  
17 nal accounting controls and internal administrative controls are estab-  
18 lished and functioning in a manner that provides reasonable assurance  
19 that they meet the objectives of internal controls as defined in section  
20 nine hundred fifty of this article. The report shall identify the inter-  
21 nal controls both evaluated and not evaluated and shall identify inter-  
22 nal control weaknesses that have not been corrected and actions that are  
23 recommended to correct these weaknesses. If any such internal control  
24 weaknesses are significant or material with respect to such departments,  
25 the independent auditors shall so state. The comptroller and the attor-  
26 ney general shall make available to the public the results of such  
27 audits, including any related management letters. The comptroller and  
28 attorney general and any officer or employee of such departments shall

1 make available upon request to such independent certified public  
2 accountants all books and records relevant to such independent audits.

3 2. The comptroller and the attorney general shall request proposals  
4 from independent certified public accountants for audits of the internal  
5 controls of their respective departments. The requests for proposals  
6 shall include a reference to the requirements for audits conducted  
7 pursuant to subdivision one of this section. The comptroller and attor-  
8 ney general shall select such independent auditors in accordance with a  
9 competitive procedure including an evaluation, based on quality and  
10 price factors, of those proposals received in response to such requests  
11 for proposals. No contract for an independent auditor may extend for  
12 more than four years.

13 3. Whenever the comptroller or his appointee is a member of any board,  
14 commission, committee, council, or corporation, which constitutes a  
15 state agency, the governing body of such board, commission, committee,  
16 council, or corporation shall select an independent auditor for the  
17 purpose of conducting audits of internal controls in accordance with  
18 this section.

19 § 5. Sections 89 and 92 of the legislative law, as added by chapter  
20 814 of the laws of 1987, are amended to read as follows:

21 § 89. Definitions. As used in this article, the following terms shall  
22 have the following meanings:

23 1. "Internal controls". [Internal controls encompass the plan of  
24 organization and all of the coordinate methods and measures adopted  
25 within an organization to safeguard its assets, check the accuracy and  
26 reliability of its accounting data, promote operational efficiency and  
27 encourage adherence to prescribed managerial policies. Internal controls

1 encompass both internal administrative controls and internal accounting  
2 controls.

3 2. "Internal administrative controls". The plan of organization and  
4 the procedures and records that are concerned with the decision proc-  
5 esses leading to management's authorization of transactions.

6 3. "Internal accounting controls". The plan of organization and the  
7 procedures and records that are concerned with the safeguarding of  
8 assets and the reliability of financial records and consequently are  
9 designed to provide reasonable assurance that:

10 a. financial transactions are executed in accordance with management's  
11 general or specific authorization;

12 b. such transactions are recorded in conformity with generally  
13 accepted accounting principles or other applicable criteria and to main-  
14 tain accountability for assets;

15 c. access to assets is permitted only in accordance with management's  
16 authorization; and

17 d. the recorded accountability for assets is compared with the exist-  
18 ing assets at reasonable intervals and appropriate action is taken with  
19 respect to any differences] Internal control, as set forth in generally  
20 accepted standards, is the integration of the activities, plans, atti-  
21 tudes, policies, systems, resources and efforts of the people of an  
22 organization which, working together, provide a reasonable assurance  
23 that the organization will achieve its mission.

24 [4] 2. "Internal audit". An appraisal activity established by the  
25 management of an organization for review of operations as a means of  
26 assuring conformance with management policies and the effectiveness of  
27 internal [administrative and accounting] controls, and conducted in  
28 conformance with generally accepted standards for internal auditing.

1 [5] 3. "Legislature". The legislature of the state of New York,  
2 including all components thereof as provided in subdivision two of  
3 section ninety of this chapter.

4 § 92. Independent audits. 1. At least once every [two] four years,  
5 the independent certified public accountants selected pursuant to this  
6 section shall conduct audits of the internal controls of each house of  
7 the legislature. Such audits shall be performed in accordance with  
8 generally accepted auditing standards and shall include a report on  
9 whether the respective house's internal accounting controls and internal  
10 administrative controls are established and functioning in a manner that  
11 provides reasonable assurance that they meet the objectives of internal  
12 controls as defined in section eighty-nine of this article. The report  
13 shall identify the internal controls both evaluated and not evaluated  
14 and shall identify internal control weaknesses that have not been  
15 corrected and actions that are recommended to correct these weaknesses.  
16 If any such internal control weaknesses are significant or material with  
17 respect to each house, the independent auditor shall so state. The  
18 temporary president of the senate and the speaker of the assembly shall  
19 make available to the public the results of such audits, including any  
20 related management letters. The temporary president and the speaker and  
21 any officer or employee of each house shall make available upon request  
22 to such independent certified public accountants all books and records  
23 relevant to such independent audits.

24 2. The temporary president of the senate and the speaker of the  
25 assembly shall request proposals from independent certified public  
26 accountants for audits of the internal controls of their respective  
27 house. The requests for proposals shall include a reference to the  
28 requirements for audits conducted pursuant to subdivision one of this

1 section. The temporary president and the speaker shall select such inde-  
2 pendent auditors in accordance with a competitive procedure including an  
3 evaluation, based on quality and price factors, of those proposals  
4 received in response to such requests for proposals. No contract for an  
5 independent auditor may extend for more than four years.

6 § 6. Sections 249 and 249-c of the judiciary law, as added by chapter  
7 814 of the laws of 1987, are amended to read as follows:

8 § 249. Definitions. As used in this article, the following terms  
9 shall have the following meanings:

10 1. "Internal controls". [Internal controls encompass the plan of  
11 organization and all of the coordinate methods and measures adopted  
12 within an organization to safeguard its assets, check the accuracy and  
13 reliability of its accounting data, promote operational efficiency and  
14 encourage adherence to prescribed managerial policies. Internal controls  
15 encompass both internal administrative controls and internal accounting  
16 controls.

17 2. "Internal administrative controls". The plan of organization and  
18 procedures and records that are concerned with the decision processes  
19 leading to management's authorization of transactions.

20 3. "Internal accounting controls". The plan of organization and the  
21 procedures and records that are concerned with the safeguarding of  
22 assets and the reliability of financial records and consequently are  
23 designed to provide reasonable assurance that:

24 a. financial transactions are executed in accordance with management's  
25 general or specific authorization;

26 b. such transactions are recorded in conformity with generally  
27 accepted accounting principles or other applicable criteria and to main-  
28 tain accountability for assets;

1 c. access to assets is permitted only in accordance with management's  
2 authorization; and

3 d. the recorded accountability for assets is compared with the exist-  
4 ing assets at reasonable intervals and appropriate action is taken with  
5 respect to any differences] Internal control, as set forth in generally  
6 accepted standards, is the integration of the activities, plans, atti-  
7 tudes, policies, systems, resources and efforts of the people of an  
8 organization which, working together, provide a reasonable assurance  
9 that the organization will achieve its mission.

10 [4] 2. "Internal audit". An appraisal activity established by the  
11 management of an organization for the review of operations as a means of  
12 assuring conformance with management policies and the effectiveness of  
13 internal [administrative and accounting] controls, and conducted in  
14 conformance with generally accepted standards for internal auditing.

15 [5] 3. "Judiciary". The courts and court-related programs, including  
16 the office of court administration, of the state-funded portion of the  
17 unified court system and all components thereof as provided in subdivi-  
18 sion two of section two hundred forty-nine-a of this article.

19 § 249-c. Independent audits. 1. At least once every [two] four  
20 years, the independent certified public accountant selected pursuant to  
21 this section shall conduct audits of the internal controls of the judi-  
22 ciary. Such audits shall be performed in accordance with generally  
23 accepted auditing standards and shall include a report on whether the  
24 judiciary's internal accounting controls and internal administrative  
25 controls are established and functioning in a manner that provides  
26 reasonable assurance that they meet the objectives of internal controls  
27 as defined in section two hundred forty-nine of this article. The  
28 report shall identify the internal controls both evaluated and not eval-

1 uated and shall identify internal control weaknesses that have not been  
2 corrected and actions that are recommended to correct these weaknesses.  
3 If any such internal control weaknesses are significant or material with  
4 respect to the judiciary, the independent auditor shall so state. The  
5 chief judge shall make available to the public the results of such  
6 audits, including any related management letters. The chief judge and  
7 any officer or employee of the judiciary shall make available upon  
8 request to such independent certified public accountants all books and  
9 records relevant to such independent audits.

10 2. The chief judge shall request proposals from independent certified  
11 public accountants for audits of the internal controls of the judiciary.  
12 The requests for proposals shall include a reference to the requirements  
13 for audits conducted pursuant to subdivision one of this section. The  
14 chief judge shall select such independent auditor in accordance with a  
15 competitive procedure including an evaluation, based on quality and  
16 price factors, of those proposals received in response to such requests  
17 for proposals. No contract for an independent auditor may extend for  
18 more than four years.

19 § 7. Sections 2930 and 2931 of the public authorities law, as amended  
20 by chapter 814 of the laws of 1987, are amended to read as follows:

21 § 2930. Definitions. For the purposes of this title, the following  
22 terms shall have the following meanings:

23 1. "Internal controls". [Internal controls encompass the plan of  
24 organization and all of the coordinate methods and measures adopted  
25 within an organization to safeguard its assets, check the accuracy and  
26 reliability of its accounting data, promote operational efficiency and  
27 encourage adherence to prescribed managerial policies. Internal controls



1 encompass both internal administrative controls and internal accounting  
2 controls.

3 2. "Internal administrative controls". The plan of organization and  
4 procedures and records that are concerned with the decision processes  
5 leading to management's authorization of transactions.

6 3. "Internal accounting controls". The plan of organization and the  
7 procedures and records that are concerned with the safeguarding of  
8 assets and the reliability of financial records and consequently are  
9 designed to provide reasonable assurance that:

10 a. financial transactions are executed in accordance with management's  
11 general or specific authorization;

12 b. such transactions are recorded in conformity with generally  
13 accepted accounting principles or other applicable criteria and to main-  
14 tain accountability for assets;

15 c. access to assets is permitted only in accordance with management's  
16 authorization; and

17 d. the recorded accountability for assets is compared with the exist-  
18 ing assets at reasonable intervals and appropriate action is taken with  
19 respect to any differences] Internal control, as set forth in generally  
20 accepted standards, is the integration of the activities, plans, atti-  
21 tudes, policies, systems, resources and efforts of the people of an  
22 organization which, working together, provide a reasonable assurance  
23 that the organization will achieve its mission.

24 [4] 2. "Internal audit". An appraisal activity established by the  
25 management of an organization for the review of operations as a means of  
26 assuring conformity with management policies and the effectiveness of  
27 internal [administrative and accounting] controls, and conducted in  
28 conformance with generally accepted standards for internal auditing.

1 [5] 3. "Covered authority". Any public authority or public benefit  
2 corporation, other than a bi-state authority or public benefit corpo-  
3 ration, a majority of whose members are appointed by the governor or  
4 serve as members by virtue of holding state offices to which they were  
5 appointed by the governor, or any combination thereof.

6 § 2931. Internal control responsibilities The governing board of each  
7 covered authority shall: 1. establish and maintain for the authority  
8 guidelines for a system of internal controls;

9 2. establish and maintain for the authority a system of internal  
10 controls and a program of internal control review. The program of inter-  
11 nal review shall be designed to identify internal control weaknesses  
12 [and], identify actions that are needed to correct these weaknesses,  
13 monitor the implementation of necessary corrective actions and period-  
14 ically assess the adequacy of the authority's internal controls;

15 3. make available to each member, officer and employee a clear and  
16 concise statement of the generally applicable managerial policies and  
17 standards with which he or she is expected to comply. Such statements  
18 shall emphasize the importance of effective internal controls to the  
19 authority and the responsibility of each member, officer and employee  
20 for effective internal controls;

21 4. designate an internal control officer, who shall report to the head  
22 of the authority or their designee in the executive office, to implement  
23 and review the internal controls responsibilities established pursuant  
24 to this section; and

25 5. implement education and training efforts to ensure that members,  
26 officers and employees have achieved adequate awareness and understand-  
27 ing of internal control standards and, as appropriate, evaluation tech-  
28 niques.

1 § 8. Section 14 of chapter 814 of the laws of 1987 amending the state  
2 finance law and other laws relating to systems of internal control, as  
3 amended by chapter 597 of the laws of 1993, is amended to read as  
4 follows:

5 § 14. This act shall take effect immediately [and shall remain in full  
6 force and effect until January 1, 1999 at which time this act shall be  
7 deemed repealed, provided that sections seven, nine, ten, and eleven of  
8 this act shall take effect April 1, 1989, and section eight of this act  
9 shall take effect January 1, 1990, except that commencing on and after  
10 the date on which this act shall have become a law, the state comp-  
11 troller, state agencies, covered authorities, the state legislature and  
12 the judiciary are authorized to take all actions necessary to implement  
13 their respective internal control and audit responsibilities under such  
14 sections of this act, and provided that paragraph a of subdivision 2-b  
15 of section 8 of the state finance law, as added by section five of this  
16 act, and subdivision 1 of section 953 and subdivision 1 of section 954  
17 of the executive law, as added by section seven of this act, and subdi-  
18 vision 1 of section 249-c of the judiciary law, as added by section ten  
19 of this act, shall take effect April 1, 1989, and subdivision 1 of  
20 section 92 of the legislative law, as added by section eight of this  
21 act, shall take effect January 1, 1990].

22 § 9. This act shall take effect January 1, 1999.





PricewaterhouseCoopers LLP  
400 Campus Drive  
P.O. Box 988  
Florham Park NJ 07932  
Telephone (973) 236-4000  
Facsimile (973) 236-5000

**MIFT**

Circle control requirements	
Over local limit: 3 "Ms" and 2 "Ps"	Under local limit: 2 "Ms" and 1 "P"
Circle below those control requirements met:	

December 13, 2000

Citibank, N.A.  
111 Wall Street, 5<sup>th</sup> Floor  
New York, NY 10043

MIFT agt. (M)  
 Sig. verif. (M)  
 Equip. security (M)  
 Signature and stamp:  
 Date: 12/13/00

Value for value (P)  
 Standing instruction (P)  
 Callback (P)  
 Party called:  
 Telephone #:  
 Time/date:  
 Caller's name:  
 Caller's initials:  
 Daily trans. reconciliation  
 (as second "P" control only)

Attn: Mary Ellen Ross  
Junior Administrator

Re: Escrow Agreement dated 12/23/98 (the "Agreement") by State officials (on behalf of the Settling States), Participating Manufacturers and Citibank, N.A. (the "Escrow Agent")-Independent Auditor's Disbursement Request

Dear Ms. Ross:

In accordance with Section 3 (c) of the above referenced Agreement, please be advised that the Escrow Agent is hereby directed to disburse to the Internal Revenue Service on or before December 15, 2000, funds totaling \$2,342,563 for the purpose of satisfying the Escrow Fund's 2000 fourth quarter estimated federal income tax liability. The allocation of the estimated tax liability among the Escrow Fund's accounts is indicated on the attached schedule.

If you have any additional questions, please call Janet Buehler at (973) 236-5770 or me at (973) 236-5512.

Sincerely,

Alan Kluger

AK:tca  
Attachment

**Signature Verified**

By:   
Date: 12/14/00

**MASTER TOBACCO SETTLEMENT AGREEMENT  
TAX LIABILITY ALLOCATION FOR FOURTH QUARTER  
FOR THE YEAR ENDED 12/31/2000**

<u>ACCOUNT NO.</u>	<u>STATE NAME</u>	<u>TAX LIABILITY</u>
Year 1999 accounts		
794876	ARKANSAS	\$ 141,251
794878	MISSOURI	\$ 387,977
Year 2000 accounts		
794713	DISPUTE	\$ 467,038
794942	ARKANSAS	\$ 123,604
794943	MISSOURI	\$ 339,503
794986	ARKANSAS	\$ 235,671
794987	MISSOURI	\$ 647,519
TOTAL		\$ 2,342,563

DEC 13 2000 11:39  
FR PRICE WATERHSE-COOPER

DATE: 15-Dec-00  
 TO: Each Notice Party  
 FROM: Citibank, N.A., As Escrow Agent  
 RE: Tobacco Settlement Escrow

Set forth below are the details of funds available, reinvestment of funds and residual cash for the below State Specific Non-Finality Accounts on December 14, 2000:

STATE SPECIFIC NON-FINALITY ACCOUNT NAME	ACCOUNT NUMBER	FNDN DISC NOTES; CUSIP # 313588T39 DUE 12/14/00	RESIDUAL CASH	LESS 12/14/00 TAX PAYMENT	AMOUNT TO BE REINVESTED	PURCHASE PRICE OF SECURITIES ON 12/14/00	FNDN DISC NTS; CUSIP # 313589AL7 DUE 01/11/01	RESIDUAL CASH
<b>NON FINALITY A/C (1999)</b>								
Arkansas	794876	\$ 21,352,000.00	\$ 898.10	\$ 141,251.00	\$ 21,211,647.10	\$ 21,210,722.91	\$ 21,317,000.00	\$ 924.19
Missouri	794878	\$ 58,654,000.00	\$ 203.59	\$ 387,977.00	\$ 58,266,226.59	\$ 58,266,055.84	\$ 58,558,000.00	\$ 170.75
<b>NON FINALITY II A/C (2000)</b>								
Arkansas	794942	\$ 18,564,000.00	\$ 768.30	\$ 123,604.00	\$ 18,441,164.30	\$ 18,440,602.70	\$ 18,533,000.00	\$ 561.60
Missouri	794943	\$ 50,995,000.00	\$ 484.24	\$ 339,503.00	\$ 50,655,981.24	\$ 50,655,190.35	\$ 50,909,000.00	\$ 790.89
<b>NON FINALITY III A/C (2000)</b>								
Arkansas	794986	\$ 30,563,000.00	\$ 174.66	\$ 235,671.00	\$ 30,327,503.66	\$ 30,327,045.25	\$ 30,479,000.00	\$ 458.41
Missouri	794987	\$ 83,952,000.00	\$ 385.69	\$ 647,519.00	\$ 83,304,866.69	\$ 83,304,599.32	\$ 83,722,000.00	\$ 267.37
Disputed Pymts A/C	794713	\$ 60,482,000.00	\$ 677.10	\$ 467,038.00	\$ 60,015,639.10	\$ 60,015,291.23	\$ 60,316,000.00	\$ 347.87

-- New York State Office of the Attorney General -

**STATE OF NEW YORK  
OFFICE OF THE ATTORNEY GENERAL**

MEMORANDUM

**TO:** All Budget & Fiscal Management Staff  
**FROM:** Daniel J. Dustin ~~DJA~~  
**DATE:** October 26, 1998  
**RE:** 1998 Internal Control Audit

The Office of the Attorney General is required to undergo a biennial audit of its internal controls in accordance with the New York State Governmental Accountability, Audit and Internal Control Act of 1987. The accounting firm of PricewaterhouseCoopers was awarded the contract to perform this year's audit through the competitive bidding process.

The audit will begin on Monday, November 2 and will conclude on Friday, November 13. The auditors are scheduled to be in Budget and Fiscal Management on Monday, November 2, at 9:00 a.m. to review internal control documentation. They will conclude their audit of Budget & Fiscal Management by testing files and reconciliations during the week of November 9.

Please let me know if you have any questions.



FOR ALL BFMB  
STAFF

The Office of the Attorney General is required to undergo a biennial audit of its internal controls in accordance with the New York State Governmental Accountability, Audit and Internal Control Act of 1987. The accounting firm of PricewaterhouseCoopers was awarded the contract to perform this year's audit through the competitive bidding process.

The audit for Budget and Fiscal Management Bureau is scheduled for Monday, November 2,



The audit will begin on Monday, November 2 and will conclude on Friday, November 13. The auditors are scheduled to be in Budget and Fiscal Management on Monday, November 2 at 9:00 a.m. to review internal control documentation. They will conclude their audit of BFMB by testing files and reconciliations during the week of November 9.

Please let me know if you have any questions.

### Internal Control Audit Response

"Comprehensive Formal Policies and Procedures

"The Office of the Attorney General implemented a bureau reorganization subsequent to the internal control review performed April 1, 1998 through November 13, 1998. Responsibilities were reorganized, and allocated across a new organizational model.

"The Office of the Attorney General does not have a formal policies and procedures manual to outline key review and approval procedures, case monitoring procedures, documentation policies and procedures to evidence review and approval, or formal document retention policies as it relates to the aforementioned. We have found diversity in practice across bureaus as it relates to evidence of review and approval, document retention and case management. Examples of observations, and root causes are noted below:"

Bureau	Observation	Root Cause	Reference to Matrix
Human Resources - Albany	A request to fill must be approved by the Division Head, Director of Human Resources and Deputy of Administration to hire a new employee.		
	Documentation to evidence approval of the request to fill is not retained in the files consistently- for seven employees; documentation was not retained in the files. Email was provided to evidence review, but there is no formal policy, procedure or documentation retention process in place to outline the Bureau's retention responsibility.	(1), (2)	A1
	Documentation (sign off) by time auditor was not maintained for all time sheets uniformly as the informal policy is to perform the review but does require evidence of the review.	(1), (2)	A2

Bureau Chief Response:

- ◆ "A request to fill must be approved by the Division Head, Director of Human Resources and Deputy of Administration to hire a new employee." **This observation should be revised, as the Director of Human Resources does not approve requests to fill positions.**
- ◆ "Documentation to evidence approval of the request to fill is not retained in the files consistently- for seven employees; documentation was not retained in the files." **This observation correctly notes that a written procedure does not exist for the retention of documentation granting approval to fill positions. However, it should be noted that competitive recruitment is not initiated without the express approval from the appropriate level of agency authority. Although in many instances we may have it on record, it is neither necessary nor required to retain evidence of this approval once a position is filled.**
- ◆ "Documentation (sign off) by time auditor was not maintained for all time sheets uniformly as the informal policy is to perform the review but does require evidence of the review." **We do, in fact, require that the time auditor initial or sign the sheet upon completion of the audit. While when the audit was initiated this was not the case with MFCU time sheets, the procedure was then implemented. With the exception of MFCU, the perceived absence of initials was the result of poor copies sent by fax. Better copies were subsequently secured that contained the appropriate signatures.**

Budget and Fiscal Management Bureau - Albany	OAG enters into contracts with expert witnesses to provide assistance in litigation. The expert witnesses are paid for the services performed. OAG's current informal policy is that it is up to lawyer discretion whether or not a retainer letter is sent to the expert witness, which would specify		
--	--	--	--

	<p>the maximum amount to be paid for services rendered, and scope of services to be performed. As guidelines have not been established for what will require a contract, there will be differences in the application of the informal policy, which includes procurement. Practice may be inconsistent with standard procurement procedure in this instance. The bureau could be liable for higher fees than originally agreed upon.</p>	(2)	B1
	<p>Payroll checks in the Albany and New York City offices are claimed by a designated employee from each Bureau, who must sign for the checks. Only the most recent payroll is retained to evidence review.</p>	(2)	B2

Bureau Chief Response:

- ◆ "As guidelines have not been established for what will require a contract there will be differences in the application of the informal policy, which includes procurement." **This statement is not accurate. When obtaining services which are expected to exceed \$15,000, The New York State Finance Law requires agencies to initiate a bidding process. This results in a contract in which the dollar amount cannot be exceeded without a formal contract amendment. Services obtained for less than \$15,000 do not require a contract, but the OAG uses a Retainer Letter specifying a fixed dollar amount. A copy of the OAG's Expert Services Policy detailing these requirements is available on the OAG's intranet and was provided to the Auditors.**
- ◆ "Practice may be inconsistent with standard procurement procedure in this instance." **In practice, the "No Retainer Letter" option is rarely used and when used requires a written explanation. It is reserved for cases where fixed price work (IME) is performed, or when the work will be completed within a very brief timeframe. As indicated in the policy, the Budget and Fiscal Management Bureau makes the final determination on whether a Retainer Letter is issued.**
- ◆ "The bureau could be liable for higher fees than originally agreed upon." **This statement is not accurate, as an approved expert request form specifies the payment to which the expert is entitled, regardless of whether a Retainer Letter is issued.**
- ◆ "Only the most recent payroll is retained to evidence review." **It is unclear why this statement is included in the Auditors' comments, as is it neither revelant nor is there a matrix reference made to this. Additionally, pursuant to the New York State Archive and Retrieval Act, only the latest payroll payment record must be retained.**

<p>Real Property – Albany</p>	<p>The Real Property Bureau- Regional Office Standard Operating Manual was last revised on February 15, 1991. Updates to this manual are sent via emails and memos, which are not retained or included in a centralized location, externally or electronically. Therefore, when providing legal assistance to State Agencies, there is a risk that outdated policies and procedures may be communicated.</p>	(1)	C1
	<p>Forms used to evidence tracking of cases are not standardized. There were many different forms used to achieve the same objective.</p>	(1)	C2

Bureau Chief Response:

- ◆ "The Real Property Bureau- Regional Office Standard Operating Manual was last revised on February 15, 1991. Updates to this manual are sent via e-mails and memos, which are not retained or included in a centralized location, externally or electronically. Therefore, when providing legal assistance to State Agencies, there is a risk that outdated policies and procedures may be communicated." **The Real Property Bureau Regional Office Standard Operating Manual was last revised in February of 1999; perhaps the 1991 date referenced by the Auditors is a typographical error. It incorporates all memoranda subsequently issued which supplement or modify the procedures set forth therein.**
  
- ◆ "Forms used to evidence tracking of cases are not standardized. There were many different forms used to achieve the same objective." **This statement is perplexing, as the official tracking forms used by the Bureau are highly standardized.**

Environmental Protection - New York City	A complaint log is not maintained. Complaint referrals are received via email and relevant environmental referrals are sent to the Bureau, however, there is no formal mechanism in place to monitor the assignment, progress and distributions of referrals.	(1)	<b>D1</b>
	No formal evidence of review with bureau lawyers is retained. No formal reports on progress are retained.	(2)	<b>D2</b>

Bureau Chief Response:

- ◆ "A complaint log is not maintained. Complaint referrals are received via email ... [and] there is no formal mechanism in place to monitor the assignment, progress, and distributions of referrals." **This observation appears to confuse a complaint in the sense of a call from the public complaining about some environmental condition and a complaint, as in a legal pleading filed with the court. It also appears to confuse complaints with referrals. Referrals for legal action from agencies are, in fact, logged in and assigned to particular lawyers. The progress of that case is then tracked (see point 2 below). The Bureau keeps several redundant logs of referrals, just to be sure none are missed. In addition, cases are entered into the computer system and can be tracked that way. Not all referrals will lead to the filing of a (judicial) complaint. Some referrals are for defensive action. Others can be resolved without going to court. To the extent this observation is discussing complaints from the public, it is also mistaken. The two members of the Bureau who receive most calls from the public, and to whom such calls are directed, maintain a log of such calls. They are reviewed by the Bureau Chief as appropriate. To the extent complaints come in via the OAG's Central office, the Communications Office keeps a log.**
  
- ◆ "No formal evidence of review with bureau lawyers is retained. No formal reports on progress are retained." **This is incorrect. First, yearly evaluations of lawyers are conducted and the documents are maintained in Environmental Protection Bureau and Human Resource files. Second, additional reviews of lawyers occurs within the Bureau and the Bureau keeps the annual and semi-annual case summaries that the lawyers prepare. Third, the Bureau maintains an Access computer system that tracks case progress. Fourth, we have regular manager meetings to discuss cases, the managers have regular meetings with their sections to ensure cases are progressing properly, and the Bureau meets (semi) regularly with DEC, our primary client agency, to discuss case progress. Finally, the Bureau provided the Auditors with multiple samples of memos prepared by Bureau attorneys summarizing their case status.**

Consumer Frauds and Protection – Albany and New York City	Evidence of case initiation approval by the Bureau Chief and evidence of periodic review of cases by the Bureau chief is not retained.	(2)	E1
	In the event of discontinuance on a batch of assurances, evidence of the approval signature by the Bureau Chief on each case is not retained. It is the informal policy that the Bureau Chief signature on one assurance in a batch of assurances is evident of review and approval of all assurances in that batch.	(2)	E2

Bureau Chief Response:

- ◆ "Evidence of case initiation approval by the Bureau Chief and evidence of periodic review of cases by the Bureau Chief is not retained." **The Bureau Chief notes that he does not retain evidence of approval of case initiation, as no attorney would initiate a case without prior approval. "Evidence of periodic review of cases" is somewhat different. The Bureau does periodic case reviews and the Deputy Bureau Chief typically takes and keeps handwritten notes during these reviews. The Bureau Chief notes that the OAG's policy states that all briefs and other legal documents are to be reviewed either by the Bureau Chief or his Deputy. When the Auditors requested written evidence that this policy was being followed, it was not available because, although nothing goes out without the Bureau Chief's review and approval, drafts or written evidence of approval of the final product are not retained.**
  
- ◆ "It is the informal policy that the Bureau Chief signature on one assurance in a batch of assurances is evident of review and approval of all assurances in that batch." **The Bureau Chief notes that the particular "batch" referenced had nearly 20 identical assurances in a sweep of jewelry stores selling phony 10K gold jewelry and, due to time constraints, he authorized a couple to be signed in his absence at the time solely by the staff attorney. As he had approved the originals and the terms of the others were identical, this signature delegation was not a true delegation of approval authority.**

Anti Trust– New York City	A complaint log is not maintained. Complaint referrals are received via phone to specific attorneys; however, there is no formal mechanism in place to monitor the assignment, progress and distributions of referrals.	(1)	F1
	Significant changes in case status must be approved by the Department Head of Public Advocacy. Review and approval of these actions are done via email and verbal communication. Emails were provided to evidence review, but there is no formal policy, procedure or documentation retention process in place to outline the Bureau's retention responsibility.	(2)	F2
	There is no evidence of the periodic review of open cases with the Bureau Chief. The annual report to Eliot Spitzer is retained.	(2)	F3

Bureau Chief Response:

- ◆ "A complaint log is not maintained. Complaint referrals are received via phone to specific attorneys; however, there is no formal mechanism in place to monitor the assignment, progress and distributions of referrals." **There is a "log" maintained by a Bureau secretary, however, the Bureau Chief believes it could be more detailed. He intends to assign one of the Bureau's para-legals to maintain a computerized spread-sheet.**
  
- ◆ "Significant changes in case status must be approved by the Department [sic, Division] Head of Public Advocacy. Review and approval of these actions are done via email and verbal communications. Emails were provided to evidence review, but there is no formal policy, procedure or documentation retention process in place to outline the Bureau's retention responsibility." **If the Auditors mean**

significant changes in case status are not evidenced by a particular form of record, which is in turn retained in an identifiable location, that is accurate.

- ◆ "There is no evidence of the periodic review of open cases with the Bureau Chief. The annual report to Eliot Spitzer is retained." If "periodic review" refers to more often than yearly, that is accurate; only the annual report is retained.

Criminal Prosecutions—Albany	Approval of case initiation by the Bureau Chief or Section Chief, approvals for bringing the case to grand jury by the Bureau Chief or Deputy Bureau Chief, and plea negotiation approvals by the Bureau Chief or Deputy Bureau Chief are not formally documented, therefore, there is no evidence of approval retained.	(2)	G1
	Only the latest monthly open case report is retained as evidence to support case review. Previous open case reports are discarded. There is no formal document retention policy in place as it relates to the maintenance of these reports.	(2)	G2

Bureau Chief Response:

- ◆ "Approval of case initiation by the Bureau Chief or Section Chief, approvals for bringing the case to grand jury by the Bureau Chief or Deputy Bureau Chief, and plea negotiation approvals by the Bureau Chief or Deputy Bureau Chief are not formally documented, therefore, there is no evidence of approval retained." **First, this observation should be clarified: A Deputy Bureau Chief may approve bringing a matter to the grand jury. Second, it should be noted that this is not a large Bureau and does not present dozens of cases to the grand jury. At a minimum these decisions are aired between the AAG and the supervisor, and usually several supervisors participate, that is, a Section Chief, a Deputy and the Bureau Chief. In Buffalo a senior supervising assistant also participates in each such decision. Frequently the Division Chief participates and at times the First Deputy to the Attorney General participates. As these are significant decisions, as are plea decisions, the process can generally be evidenced by questioning the participants. Given the extensive participation, written documentation was not necessary.**
- ◆ "Only the latest monthly open case report is retained as evidence to support case review. Previous open case reports are discarded. There is no formal document retention policy in place as it relates to the maintenance of these reports." **This statement is not accurate. The Bureau Chief has copies of all that have been created in recent years.**

Appeals and Opinions – New York City	Documentation relating to the approval to appeal or denial of appeal is performed primarily through the use of email or telephone discussion. Therefore, evidence of the approval of the appeal decision is not retained.	(1)	H1
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Bureau Chief Response:

- ◆ "Evidence of the approval of the appeal decision is not retained." **This statement is inaccurate. In all cases, the original (yellow sheet) of the appeal recommendation form is retained, and copies of the forms are forwarded to Albany with comment whether the appeal was approved or denied. This information is kept in Albany for statistical purposes. The original is retained in New York City and was available to the Auditors.**

Civil Rights– New York City	There is no evidence of the weekly periodic review of open cases with the Bureau Chief. Handwritten notes are available in some cases.	-1	I1
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Bureau Chief Response:

- ◆ "There is no evidence of the weekly periodic review of open cases with the Bureau Chief. Handwritten notes are available in some cases." **This appears to be an accurate assessment of the Bureau's method of operation.**

Investment Protection - New York City	There is no evidence of review and approval of franchise and theatrical filings.	-1	J1
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Bureau Chief Response:

- ◆ "There is no evidence of review and approval of franchise filings." **This statement is inaccurate. The Bureau maintains an extensive data base on franchises which is updated at the time of each new filing. Each time the Bureau enters the filing received date, the name of the examiner, the date any comment letters were sent out, and the date the filing was accepted by the examiner. The Bureau's policy is that an acceptance for filing indicates an approval. If the filing has not yet been accepted, the database will show that too.**
- ◆ "There is no evidence of review and approval of theatrical filings." **For theatricals there is a basic filing system with index cards showing which filings were accepted. While we maintain in Albany an inventory of files, only those forwarded would have been accepted. We are instituting a change so that theatrical filings are put into a database that will show all the necessary information.**

Health Care– Albany	Evidence of case initiation and litigation document review is not retained. Review notes may be available.	-1	K1
	No formal evidence of review with lawyers is retained.		K2

Bureau Chief Response:

- ◆ "Evidence of case initiation and litigation document review is not retained. Review notes may be available" **There may be some confusion as records were reviewed in Albany and did not always include the Bureau Chief's records. The Bureau Chief reviews all litigation documents and settlement documents and keeps them in his files in New York City. On final drafts that have been reviewed by the Division Head, the Bureau Chief notes that on the draft which contains his comments and sign off. Once a case is initiated, it is assigned an attorney and recorded on the Bureau's Case Memo list, with that attorney's initials and with milestones for the case.**
- ◆ "No formal evidence of review with lawyers is retained." **If this comment refers to review of legal documents, the Bureau Chief retains all copies of such with his comments and notes as to decisions made on final wording, negotiation strategy, etc.**

Legal Technology– Albany	OAG's change control policy requires that users request program changes via a "Change Control Request Form". However, users also request program changes via email and phone call, therefore, they	(3)	L2
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	do not consistently follow procedures.		
	Users do not consistently sign off on acceptance of program changes or testing to indicate approval of changes made by programmer/developers.	(1)	L3
	It is the policy of OAG that system software changes are to be tested before installation. However, documentation of the testing and the results, issues noted, and solutions are not retained.	(1)	L4
	Formal logs are not maintained for problems noted in daily batch processing. Instead, the operators perform on-line monitoring of job processing. Production problem resolution procedures are not formally documented.	(1)	L1
	Several static tables, called Reference Tables, can be updated by IT directly. There is no logging or monitoring of direct data changes made to these tables by programmers/developers.	(1), (2)	L5

Bureau Chief Response:

◆ "OAG's change control policy requires that users request program changes via a 'Change Control Request Form'. However, users also request program changes via email and phone call, therefore, they do not consistently follow procedures." **The Change Control Request Form is used within the Legal Technology Bureau to certify that testing has been completed and to authorize the transfer of the program to production. It is not used by end users to request program changes. Within recent months, a Project Request Document has been developed which allows users to request new projects. For agency-wide applications, there is a subcommittee of the Steering Committee which authorizes requested changes. This authorization can be in writing (e-mail acceptable) or verbally. If verbal, a confirmation documenting the authorization is sent. For Bureau specific applications, a user-Bureau's designated contact authorizes changes in writing (e-mail acceptable) or verbally. If verbal, a confirmation documenting the authorization is sent. When necessary, the Legal Technology Bureau assumes the responsibility of preparing written documentation in an effort to be customer service oriented.**

**NB: "Root Cause 3" is not explained in the PWC draft, although it is referenced in this section of the PWC report.**

◆ "Users do not consistently sign off on acceptance of program changes or testing to indicate approval of changes made by programmer/developers." **Users do approve program changes before programs are transferred to production. If the approval is verbal, a confirmation documenting the approval is sent. If no approval is received, changes are not moved to production.**

◆ "It is the policy of OAG that system software changes are to be tested before installation. However, documentation of the testing and the results, issues noted, and solutions are not retained." **System software is loaded and tested in a test environment prior to deployment into production. Any problems, configuration changes or modifications are noted. These modifications are applied to the production system during the implementation. The Legal Technology Bureau retains all testing documentation.**



- ◆ "Formal logs are not maintained for problems noted in daily batch processing. Instead, the operators perform on-line monitoring of job processing. Production problem resolution procedures are not formally documented." **Nightly As400 jobs are checked on-line. Any problems which occur are addressed and the jobs are completed. The Legal Technology Bureau will create daily batch processing logs and note the results.**
  
- ◆ "Several static tables, called Reference Tables, can be updated by IT directly. There is no logging or monitoring of direct data changes made to these tables by programmers/developers." **The reference tables include pick-lists such as states, counties, zip codes and other standardized values. The reference tables need to be maintained centrally to ensure consistent data. Historically, reference tables maintained by end users contain multiple variations of even simple values, such as "New York", "NY" or "N. Y." as acceptable abbreviations for our state. This makes searching and reporting cumbersome and prone to error. Entries to reference tables used by specific applications are approved by either the application workgroup or bureau contacts. The OAG's current standards require that reference tables contain columns identifying the date created, the date last modified and the user ID of the person who created or last modified the entry. Most values from the reference tables are copied into rows in the application tables, so that changes to the reference tables do not have a ripple effect on the accuracy of existing records. The risk of damaging data is low, and the Legal Technology Bureau has a way to identify the person who made the change in question. Additional controls, while possible, would not significantly lessen the already low risk.**