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# Internal Risk Assessment

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Cash/Negotiable Instruments

For the Period

July 1, 1999 through June 30, 2000

AI-0700-1

June 4, 2002

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The University of the State of New York  
**THE STATE EDUCATION DEPARTMENT**  
Office of Audit Services  
Albany, New York 12234



THE UNIVERSITY OF THE STATE OF NEW YORK  
THE STATE EDUCATION DEPARTMENT

**To:** Richard H. Cate **Date:** June 4, 2002  
**From:** Daniel Tworek  
**Subject:** Audit Report of Internal Risk Assessment - Cash/Negotiable Instruments

I write to transmit the internal risk assessment report (AI-0700-1) on the Department's process for receiving cash/negotiable instruments for the period July 1, 1999 through June 30, 2000. The review was conducted as part of the Office of Audit Services Tactical Audit Plan for the period July 1, 2000 through June 30, 2002. It is consistent with the pursuit of Goal #5 of the Board of Regents/State Education Department Strategic Plan: "Resources under our care will be used or maintained in the public interest."

The Standards for Internal Control in New York State Government, issued by the Office of the State Comptroller, call for managers to assess and manage risk. The Standards further state "To have reasonable assurance that the organization will achieve its objectives, management should ensure each risk is assessed and handled properly." This report may be used by managers as a preliminary assessment of the work associated with the receipt of cash negotiable instruments. However, a risk assessment of all functions should be conducted periodically to assess the risk associated with all of the office's significant objectives.

Ninety days from the issuance of this report, the Program Manager will be asked to submit a report on actions taken as a result of this audit. I appreciate the cooperation and courtesies extended to the staff during the audit.

Attachment

cc: Commissioner Mills  
Terry Savo  
Thomas Sheldon  
Robert Arnold  
Robert Bentley  
Mary Daley  
Thomas Hamel  
Donald Juron  
Charles Mackey

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# EXECUTIVE SUMMARY

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This review of the Department's processes for receiving cash/negotiable instruments was conducted in accordance with the Tactical Audit Plan covering the period July 1, 2000 through June 30, 2002. The purpose was to conduct a risk assessment of the Department's internal controls over the process for receiving cash/negotiable instruments. We accomplished the review by gathering data and interviewing staff. We did not test the information received or systems described in the attached report.

## **Background**

Cash/negotiable instruments are not received in one central location in the Department. Most cash receipts are received in a program office or in a bank lock box, while some are received directly by the Bureau of Fiscal Management (BFM). When a program office receives the cash, it is eventually forwarded to BFM for deposit. BFM records the receipt on the Office of the State Comptroller's accounting system.

The receipt of cash/negotiable instruments can be classified into two categories: those received by the program office and those received by BFM on behalf of the program offices. In addition to examining controls within BFM, we selected five offices with the largest amount of revenue regardless of the method of receipt, and reviewed the internal controls in place for recording the receipt and safeguarding of the revenue. The offices selected for review were the: Division of Professional Licensing; Office of Teaching; State Archives Local Government Records Management Improvement Fund; Program Services Reimbursement Unit; and the Summer Institutes.

## **Internal Controls**

The definition of internal controls has undergone significant change in the private and public sectors over the last decade. At one time, the term "internal controls" was synonymous with accounting controls which were primarily designed to provide assurance that assets were controlled and accounting records were accurate. Recently, the definition of internal controls has been greatly expanded to include all activities of an organization designed to accomplish goals and objectives.

The Committee of Sponsoring Organizations (COSO) expanded the definition of internal controls in response to instances of significant irregularities found in the private sector. COSO defines internal controls as a process, effected by an entity's board of directors, management and other personnel, designed to provide assurance regarding the achievement of objectives in the following categories:

- Effectiveness and efficiency of operations.
- Reliability of financial reporting.
- Compliance with applicable laws and regulations.

COSO describes five interrelated components of an internal control process. They are Control Environment, Risk Assessment, Control Activities, Information and Communication, and Monitoring. We examined the Department's processes for receiving cash/negotiable instruments and assessed the extent that these components exist.

## **Results of the Review**

Presented below is a summary of the observations developed as part of the risk assessment:

- In many instances, offices have not established specific objectives for the cash/negotiable instrument receipt process.
- The risk assessments that have been conducted did not assess the risk of failing to achieve specific objectives.
- There is an opportunity to provide program offices with more information related to the level of cash/negotiable instruments received.
- Some program offices lack written policies and procedures over the cash/negotiable receipt process.
- Program offices should develop periodic summary reports to apprise managers of the status of cash receipts.

## **Conclusion**

We believe the function is well controlled in receiving and recording cash/negotiable instruments. Controls are particularly strong in BFM. However, there is a potential to strengthen the internal controls over the process in some of the offices that receive cash, and in providing better information to the Department offices on the status of cash/negotiable instruments received. Formal objectives should be developed so that staff and management are aware of the responsibilities of receiving cash. Objectives should be developed that focus on the economy and efficiency of operations, reliability of financial reporting, and compliance with applicable laws and regulations. Management should ensure that the objectives are measurable and attainable.

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