

STATE OF NEW YORK
OFFICE OF THE STATE COMPTROLLER

Proposal to Provide
Professional Services for the Audit
of the Internal Control System

2014

*Title Page and
Table of Contents*

STATE OF NEW YORK
OFFICE OF THE STATE COMPTROLLER

RFP 14-12
Professional Auditing Services for the
Audit of OSC's System of Internal Controls

2014

TOSKI & CO., CPAs, P.C.

6390 Main Street, Suite 200
Williamsville, New York 14221
(716) 634-0700

14 Corporate Woods Boulevard
Albany, New York 12211
(518) 935-1069

Douglas E. Zimmerman, CPA
Managing Director
dzimmerman@toskicpa.com

October 8, 2014

STATE OF NEW YORK
OFFICE OF THE STATE COMPTROLLER

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***Attachment A - Proposer's
Certified Statements***

ATTACHMENT A
PROPOSER'S CERTIFIED STATEMENTS

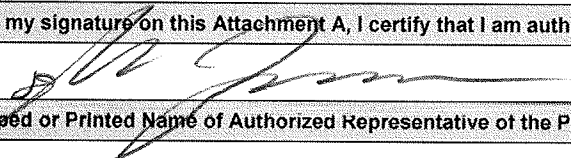
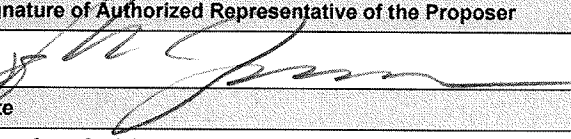
(MANDATORY SUBMISSION: to be completed and included in the Technical Proposal documents)

RFP14-12 PROFESSIONAL AUDITING SERVICES FOR THE AUDIT OF OSC'S SYSTEM OF INTERNAL CONTROLS
1. Information with regard to the Proposer
A. Provide the Proposer's name, address, telephone number, and fax number.
Name: Toski & Co., CPAs, P.C.
Address: 6390 Main Street, Suite 200
City, State, ZIP Code: Williamsville, New York 14221
Telephone Number (including area code): (716) 634-0700
Fax Number (including area code): (716) 634-0764
B. Provide the name, address, telephone number, and email address of the Proposer's Primary Contact with OSC with regard to this proposal.
Name: Douglas E. Zimmerman, CPA, Managing Director
Address: 6390 Main Street, Suite 200
City, State, ZIP Code: Williamsville, New York 14221
Telephone Number (including area code): (716) 634-0700
Email Address: dzimmerman@toskicpa.com
C. Provide the name, address, telephone number, and email address of the person authorized to bind the Proposer contractually, if different from (B).
Name: Douglas E. Zimmerman, CPA, Managing Director
Address: 6390 Main Street, Suite 200
City, State, ZIP Code: Williamsville, New York 14221
Telephone Number (including area code): (716) 634-0700
Email Address: dzimmerman@toskicpa.com
D. In accordance with paragraph 6 of the OSC Procurement Integrity Procedures included in this RFP as Appendix D, provide the name, address, telephone number, email address, place of principal employment and occupation of any person authorized to represent the Proposer. This requirement applies not only to Proposer's employees involved in the submission of the proposal, but also to every individual or organization employed or designated by the Proposer to attempt to influence the procurement process. If there is none, state that. This information must be updated if, after the Deadline for Submission of Proposals, the Proposer retains an individual or organization to attempt to influence the procurement process. Indicate also whether the individual or organization has a financial interest in the procurement.
Name: Douglas E. Zimmerman, CPA
Address: 6390 Main Street, Suite 200
City, State, ZIP Code: Williamsville, New York 14221
Telephone Number (including area code): (716) 634-0700

Email Address: dzimmerman@toskicpa.com	
Place of Principal Employment: Toski & Co., CPAs, P.C.	
Occupation: Managing Director	
This individual/organization has a financial interest in the procurement:	☒ Yes ☐ No
No such individual/organization is authorized to represent the Proposer:	☐ Yes ☒ No
2. Proposer's Acknowledgement of Proposal Requirements: [Please note: alteration of any language contained in this section may render your proposal non-responsive.]	
A. The proposal, including the Technical, Administrative, and Cost Proposals, constitutes a firm and irrevocable offer for a period of <u>180</u> days from the date of submission to OSC.	☒ Yes ☐ No*
B. By submission of a proposal, the Proposer agrees not to make any claims for or have a right to any damages because of any misrepresentations or misunderstanding of the specifications or because of any lack of information.	☒ Yes ☐ No*
C. The Proposer agrees to fully comply with the OSC Executive Order on Procurement Integrity and the OSC Procurement Integrity Procedures attached to this RFP as Appendix D.	☒ Yes ☐ No*
D. The Proposer certifies that it can and will provide and make available, at a minimum, all deliverables as described in the RFP if selected for award.	☒ Yes ☐ No*
E. The Proposer certifies that all information provided in connection with its proposal is true and accurate.	☒ Yes ☐ No*
F. The Proposer has read, understands, and accepts all provisions of Appendix A – Standard Clauses for NYS Contracts. Appendix A contains important information related to the contract to be entered into as a result of this RFP and will be incorporated, without change or amendment, into the contract entered into between OSC and the selected Proposer. By submitting a response to the RFP, the Proposer agrees to comply with all the provisions of Appendix A.	☒ Yes ☐ No*
G. The Proposer's Legal representation has reviewed and understands Attachment F (Draft Contract Agreement), and the Proposer is willing to enter into an Agreement substantially in accord with the terms of Attachment F (Draft Contract Agreement), should the Proposer be selected for contract award.	☒ Yes ☐ No*
H. The Proposer agrees that OSC shall have the right to approve or disapprove, after appropriate review and/or interview(s), any and all subcontractor(s) of the Proposer prior to their performance of services under the Agreement.	☒ Yes ☐ No*
I. The Proposer agrees that it shall be fully responsible for performance of work by its staff and by its subcontractor's staff. OSC reserves the right to request removal of any Proposer staff or subcontractor's staff if, in OSC's discretion, such staff is not performing in accordance with the Agreement.	☒ Yes ☐ No*
J. The Proposer agrees to provide all mandatory deliverables as stated in Section 4.2.	☒ Yes ☐ No*
* A "No" Response in Section 2 of this attachment will result in disqualification.	
3. Information Required:	
A. The Proposer is (check as applicable):	
☐ A New York State Certified Minority-Owned Business Enterprise ☐ A New York State Certified Woman-Owned Business Enterprise ☐ A New York State Certified Minority and Woman-Owned Business Enterprise (Dual Certified) ☒ None of the above	
B. Provide the name, title, address, telephone number, and email address of the person authorized to receive Notices with regard to the contract entered into as a result of this procurement. See Section V of the Draft Contract (Attachment F), NOTICES.	

Name: Douglas E. Zimmerman, CPA
Title: Managing Director
Address: 6390 Main Street, Suite 200
City, State, ZIP Code: Williamsville, New York 14221
Telephone Number (including area code): (716) 634-0700
Email Address: dzimmerman@toskicpa.com
C. Proposer's Taxpayer Identification Number:

D. Proposer's NYS Vendor Identification Number as discussed in Section 6.1.F, if enrolled:

By my signature on this Attachment A, I certify that I am authorized to bind the Proposer contractually.

Typed or Printed Name of Authorized Representative of the Proposer
Douglas E. Zimmerman, CPA
Title/Position of Authorized Representative of the Proposer
Managing Director
Signature of Authorized Representative of the Proposer

Date
October 8, 2014

Firm's New York State Registration

- ***Provide proof that your firm is an independent Certified Public Accounting (“CPA”) firm that is registered and in good standing with the New York State Board for Accountancy, or with the State Board for Accountancy where licensed.***

Toski & Co., CPAs, P.C. is an independent Certified Public Accounting firm registered and in good standing with the New York State Board for Accountancy.

- ***Provide a copy of your firm’s current registration to practice public accounting in New York State.***

Please see below for evidence of the firm’s license to practice.

Business Entity Information *

10/08/2014

Name : TOSKI & CO CPAS PC

Street Address :

6390 MAIN STREET

SUITE 200

WILLIAMSVILLE, NY 142210000

Business Entity : Professional Service Corporation

PSC # : 096029

Initial Filing Date : 12/28/11

Current through : 11/30/14

Officers, Directors, Shareholders : Click on license number link to the left of professional's name for detailed information.

07 060798 ZIMMERMAN DOUGLAS EDWARD -

* Use of this online verification service signifies that you have read and agree to the [terms and conditions of use](#). See [HELP glossary](#) for further explanations of terms used on this page.

- Use your browser's back key to return to establishment list.
- You may [search](#) to see if there has been recent disciplinary action against this registered establishment.



***Firm's Experience with Governmental
Audits of Internal Controls***

- ***Provide a list of client(s) and dates that demonstrates that your firm has previously conducted a government audit within the last five years that included the review of internal controls, using Generally Accepted Government Audit Standards (“GAGAS”).***

Our Firm provides audit, accounting and consulting services to over 175 governmental organizations on an annual basis. The Firm’s Governmental Audit Practice Group consists of 50 highly trained professionals. Please see Appendix A for the qualifications of key personnel and Appendix B for a partial listing of governmental organizations which are our clients.

Our Firm provides audit services to the [REDACTED]
[REDACTED] Our examination includes an audit of the internal controls of the [REDACTED]
[REDACTED] as required by the New York State Governmental Accountability, Audit and Internal Control Act. Our examination was conducted in accordance with Government Auditing Standards, issued by the Comptroller General of the United States and the standards established by the American Institute of Certified Public Accountants and, accordingly, included obtaining an understanding of internal controls, testing and evaluating the design and operating effectiveness of the internal controls, and performing such other procedures as we considered necessary under the circumstances.

Our Firm provides audit services to the [REDACTED]
[REDACTED] We recently performed the audit of the system of internal controls of the [REDACTED]
[REDACTED] Our examination was conducted in accordance with Government Auditing Standards, issued by the Comptroller General of the United States and the standards established by the American Institute of Certified Public Accountants and, accordingly, included obtaining an understanding of internal controls, testing, and evaluating the design and operating effectiveness of the internal controls, and performing such other procedures as we considered necessary under the circumstances.

Our Firm previously provided audit services to the [REDACTED]
[REDACTED] Our examination includes an audit of the internal controls of the [REDACTED]
[REDACTED] as required by the New York State Governmental Accountability, Audit and Internal Control Act. Our examination was conducted in accordance with Government Auditing Standards, issued by the Comptroller General of the United States and the standards established by the American Institute of Certified Public Accountants and, accordingly, included obtaining an understanding of internal controls, testing, and evaluating the design and operating effectiveness of the internal controls, and performing such other procedures as we consider necessary under the circumstances.

Our Firm provides audit services to the [REDACTED]
Our examination includes an audit of the internal controls of the New York State Assembly as required by the New York State Governmental Accountability, Audit and Internal Control Act. Our examination was conducted in accordance with Government Auditing Standards, issued by the Comptroller General of the United States and the standards established by the American Institute of Certified Public Accountants and, accordingly, included obtaining an understanding of internal controls, testing, and evaluating the design and operating effectiveness of the internal controls, and performing such other procedures as we consider necessary under the circumstances.

Our Firm provides audit services to the [REDACTED] as required by the New York State Governmental Accountability, Audit and Internal Control Act [REDACTED]

[REDACTED] We recently performed the audit of the system of internal controls of the [REDACTED]. Our examination was conducted in accordance with Government Auditing Standards, issued by the Comptroller General of the United States and the standards established by the American Institute of Certified Public Accountants and, accordingly, included obtaining an understanding of internal controls, testing and evaluating the design and operating effectiveness of the internal controls, and performing such other procedures as we considered necessary under the circumstances. [REDACTED]

Our Firm provides audit services to the [REDACTED]. Our examination includes an audit of the internal controls of the New York State Senate as required by the New York State Governmental Accountability, Audit and Internal Control Act. Our examination was conducted in accordance with Government Auditing Standards, issued by the Comptroller General of the United States and the standards established by the American Institute of Certified Public Accountants and, accordingly, included obtaining an understanding of internal controls, testing, and evaluating the design and operating effectiveness of the internal controls, and performing such other procedures as we consider necessary under the circumstances. [REDACTED]

Our Firm provides audit services to the [REDACTED]. [REDACTED] Our examination includes an audit of the internal controls of the [REDACTED] as required by the New York State Governmental Accountability, Audit and Internal Control Act. Our examination was conducted in accordance with Governmental Auditing Standards, issued by the Comptroller General of the United States and the standards established by the American Institute of Certified Public Accountants and, accordingly, included obtaining an understanding of the internal controls, testing, and evaluating the design and operating effectiveness of the internal controls, and performing such other procedures as we consider necessary under the circumstances.

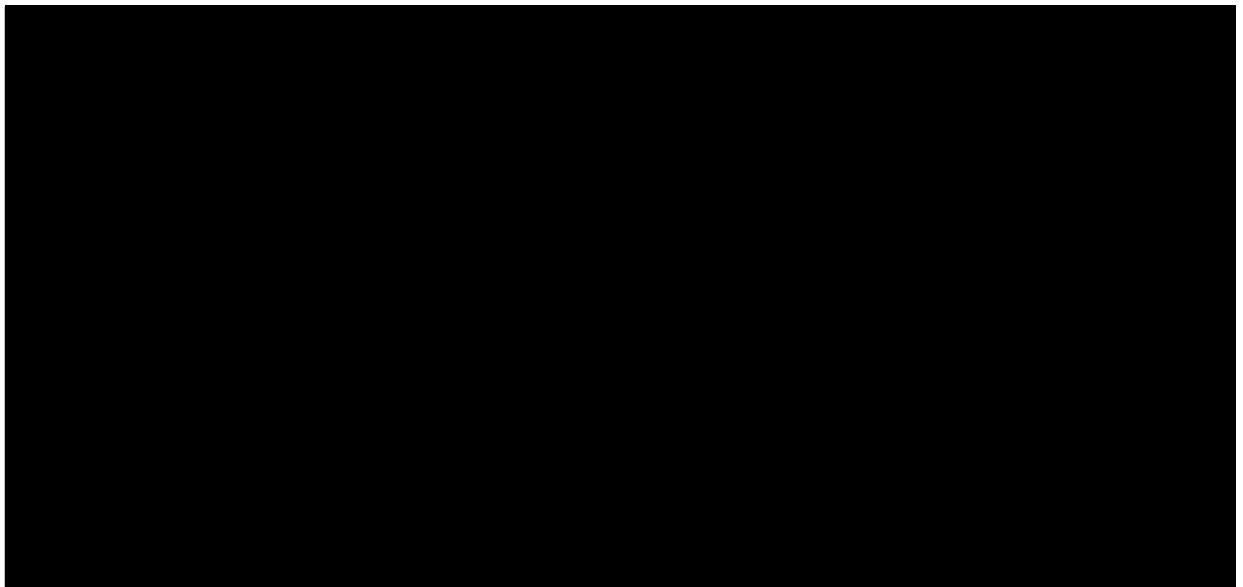
Our Firm provides internal audit services to the [REDACTED]

[REDACTED] Our Firm has expended over [REDACTED] in the last [REDACTED]

[REDACTED] These services are provided to [REDACTED] through [REDACTED]

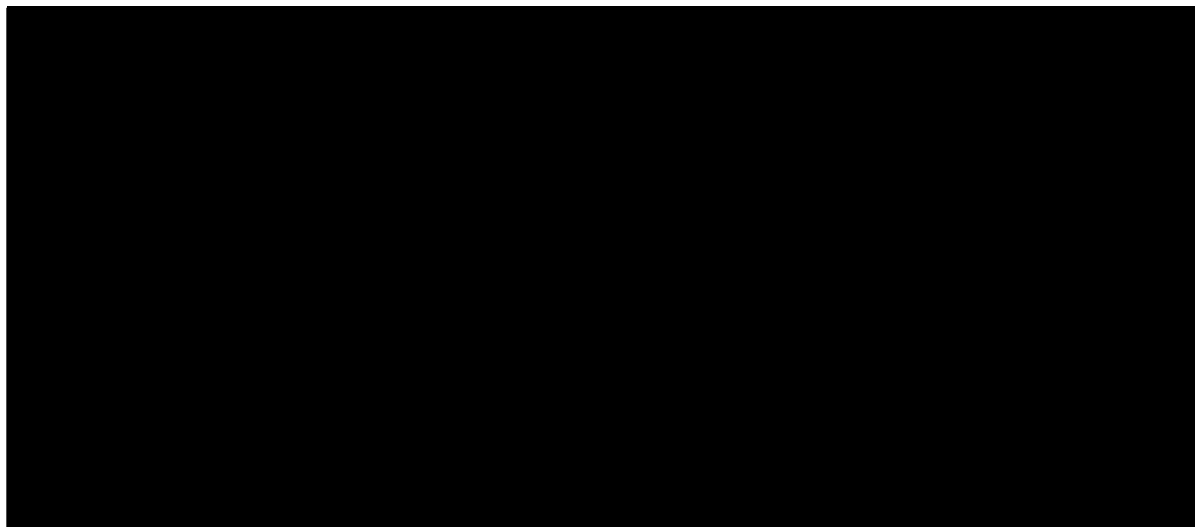
[REDACTED] These services include extensive auditing of the internal control system of the [REDACTED] related to the following:

- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]



Our Firm provides audit services to the [REDACTED]
[REDACTED] We perform limited fiscal reviews of nonprofit organizations to assess operating, internal control and financial aspects of [REDACTED]
[REDACTED] Our Firm has expended over [REDACTED] over the last [REDACTED] providing audit services to [REDACTED] We have performed limited fiscal reviews of more than [REDACTED]
[REDACTED] located throughout [REDACTED] In connection with our audits, we perform the following procedures:

-
-
-
-
-
-
-
-
-



Our Firm provides audit services to the [REDACTED]
[REDACTED] We perform cost certification audits of construction contracts in connection with bond issuances by the [REDACTED]
In connection with these engagements [REDACTED] we audit the construction costs related to the development or rehabilitation of [REDACTED] Each expenditure is verified to applicable contract's purchase orders, vendor invoices, job cost orders, etc. In connection with these engagements, we also compile and reconcile the information necessary to comply with [REDACTED]

Our Firm provided audit services under contract with [REDACTED]
[REDACTED] Our examination was conducted in accordance with Government Auditing Standards, issued by the Comptroller General of the United States and, accordingly, included obtaining an understanding of internal controls, testing, and evaluating the design and operating effectiveness of the internal controls, and performing such other procedures as we consider necessary under the circumstances.

Our Firm has substantial experience providing audit, accounting and consulting services to governmental organizations. We are completely familiar with generally accepted Government Auditing Standards (GAGAS), issued by the Comptroller General of the United States, standards promulgated by the Governmental Auditing Standards Board (GASB), General Municipal Law, New York Code of Rules and Regulations and the New York State Internal Control Act. We perform more than 400 GAGAS audits annually. Our team of professionals from our governmental audit practice is well versed and keeps up-to-date on all standards affecting the government environment.

Firm's Independence

- ***Submit a statement signed by an authorized signatory that states that your firm is independent of OSC in accordance with the American Institute of Certified Public Accountants ("AICPA") and government auditing standards and is able to conduct the proposed audit.***

Toski & Co., CPAs, P.C. is independent of the State of New York Office of the State Comptroller (OSC) as defined by generally accepted auditing standards, U.S. Government Accountability Office (GAO)'s Government Auditing Standards and the American Institute of Certified Public Accountants. Accordingly, no relationship exists between Toski & Co., CPAs, P.C. and OSC or any of its employees, Board members or with any person or agency that constitutes a conflict of interest with respect to OSC. Toski & Co., CPAs, P.C. is able to conduct the proposed audit.



Douglas E. Zimmerman, CPA
Managing Director

Attachment D - References

- *A list of the most significant engagements with other government entities performed within the last five years where services were rendered by the firm's office responding to the RFP. Indicate scope of work, date, Partner-in-Charge, total hours, engagement outcomes, and the principal client contact with name, telephone number, and email address.*

Our Firm has provided various audit services to numerous governmental organizations. The following is a listing of the most significant engagements similar to the services requested by the State of New York Office of the State Comptroller:

[REDACTED]
Scope of work:

Date:

Hours:

Engagement partner:

Outcome:

Contact:

[REDACTED]
Scope of Work:

Date:

Hours:

Engagement partner:

Outcome:

Contact:

[REDACTED]
Scope of Work:

Date:

Hours:

Engagement partner:

Outcome:

Contact:

[Redacted]

Scope of Work:

Date:

Hours:

Engagement partner:

Outcome:

as
dit

Contact:

[Redacted]

[Redacted]

Scope of Work:

Date:

Hours:

Engagement partner:

Outcome:

Contact:

[Redacted]

ATTACHMENT D

REFERENCES

Using this form, submit a total of THREE references as discussed in Section 6.2.E.

Expand fields and duplicate this page as necessary.

RFP14-12 Professional Auditing Services for the Audit of OSC's System of Internal Controls	
PROPOSER:	Toski & Co, CPAs, P.C.
Provide the following information for each reference submitted. Fields will expand as you type.	
Reference Company #1: *	
Contact Person:	
Address:	
City, State, Zip:	
Telephone Number:	
Email Address:	
Number of years Proposer provided services to this entity:	
Brief description of the services provided:	
Reference Company #2:	
Contact Person:	
Address:	
City, State, Zip:	
Telephone Number:	
Email Address:	
Number of years Proposer provided services to this entity:	
Brief description of the services provided:	
Reference Company #3:	
Contact Person:	
Address:	
City, State, Zip:	
Telephone Number:	
Email Address:	
Number of years Proposer provided services to this entity:	
Brief description of the services provided:	

*Client is a government entity

Additional Information

FURTHER ATTACHMENTS

- ***Submit a statement signed by an authorized signatory that, collectively, the team assigned to the audit is qualified to provide an opinion on whether OSC's system of internal controls are established and functioning in a manner that provides reasonable assurance that it meets the objectives of internal controls as defined in the Executive Law.***

Toski & Co., CPAs, P.C. certifies that, collectively, the team assigned to the audit is qualified to provide an opinion on whether OSC's system of internal controls are established and functioning in a manner that provides reasonable assurance that it meets the objectives of internal controls as defined in the Executive Law.



Douglas E. Zimmerman, CPA
Managing Director

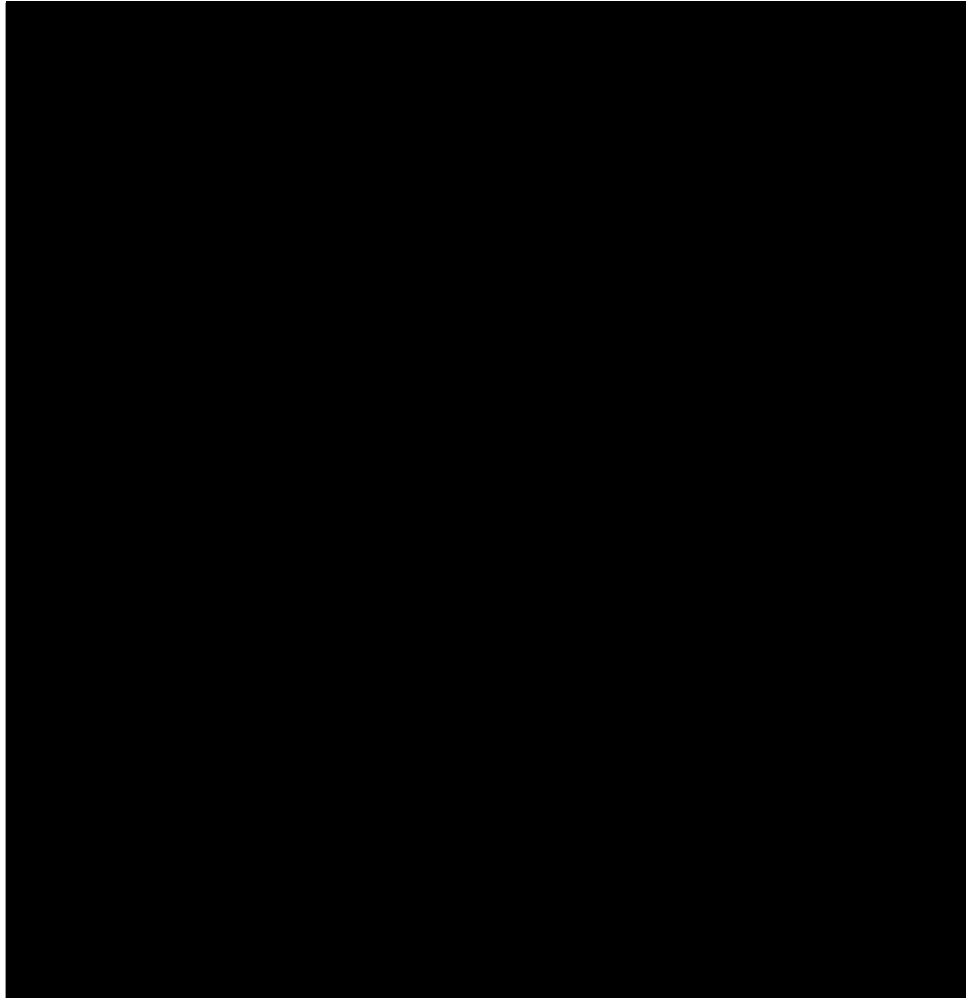
- ***A description, in detail, of how the experience of the firm and the professional staff that will be available to perform the Scope of Work will satisfy the needs as described in Section 4.0 (Scope of Work and Mandatory Deliverables).***

Our Firm has undertaken many engagements equal to or exceeding the magnitude of this project and we are confident that we can assemble a team of professionals that will respond rapidly and effectively to the needs of the engagement. We will commit the necessary resources and devote trained professionals that have substantial experience in performing audits of internal control systems to ensure successful completion of the engagement. Toski & Co., CPAs, P.C. has performed [REDACTED] including the [REDACTED] [REDACTED] in accordance with the New York State Governmental Accountability, Audit and Internal Control Act. All key individuals to be assigned to this engagement will have previous experience in performing audits in accordance with the Internal Control Act.

We believe we are the firm best qualified to provide professional services for the Office of the State Comptroller based on:

- Our previous experience in performing the audit of the internal control system of the [REDACTED] for the following periods:
 - [REDACTED]
 - [REDACTED]
 - [REDACTED]
- Our extensive experience in performing internal control audits of [REDACTED] [REDACTED] in accordance with the New York State Governmental Accountability, Audit and Internal Control Act. We have performed the internal control audits of the following:
 - [REDACTED]
 - [REDACTED]
 - [REDACTED]
 - [REDACTED]
 - [REDACTED]
 - [REDACTED]
 - [REDACTED]

- Our ability to assemble an engagement team with substantial experience in performing internal control audits in accordance with the New York State Governmental Accountability, Audit and Internal Control Act. All key individuals to be assigned to this engagement have prior experience in performing these audits.
- Our substantial experience with regard to performing audits of internal controls. We perform over 400 audits of internal control on an annual basis in accordance with the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.
- Our experience with various New York State agencies, including the following:



- Our use of substantially more partner time on engagements than other firms, resulting in improved client service.
- Our ability to provide quality services on a timely basis for reasonable fees.
- ***A proposed audit plan describing your overall approach to the audit as stated in Section 4.0 (Scope of Work and Mandatory Deliverables).***

Our Firm will conduct an audit of the existing internal controls of the State of New York Office of the State Comptroller (OSC) as required by Article 45 of the New York State Executive Law, §§ 950, 951, 952 and 954, “New York State Governmental Accountability, Audit and Internal Control Act.” This audit will be conducted in accordance with the standards contained in Government Auditing Standards, issued by the Comptroller General of the United States. A brief summary of the audit approach to be utilized is as follows:

1. Planning.
2. Assessment of Significant Controls.
3. Testing of Significant Controls.
4. Reporting.

Our approach will focus on controls within the OSC. We will focus on the OSC's internal control objectives, document our understanding of these controls, and perform tests of the adequacy of the controls in place. We will determine the types of errors that could occur and the control procedures to prevent or detect such errors. This approach will also allow us to determine whether the necessary procedures are prescribed and being followed and to evaluate any weaknesses.

1. Planning

Planning the engagement involves developing a strategy for the scope and performance of the audit engagement. Factors to consider in developing this strategy include the following:

- Matters affecting the OSC such as financial reporting practices, economic conditions, laws and regulations, and technological changes.
- Matters relating to the OSC, including its organization and operating characteristics.
- The extent of any recent changes in the OSC, its operations, or its internal control.
- Preliminary judgments about the effectiveness of internal control.
- Preliminary judgments about materiality levels, inherent risk, and other factors relating to the determination of material weaknesses.
- Management's method of evaluating the effectiveness of the controls over financial reporting based on the control criteria.
- The nature of specific controls designed to achieve the objectives of the control criteria, and their significance to internal control taken as a whole.
- The type and extent of evidence pertaining to the effectiveness of the OSC's controls, including the extent to which management or internal auditors have tested the effectiveness of the controls.

The planning phase will begin with an entrance conference with the Internal Control Officer and other appropriate OSC representatives and conclude with a progress conference at which the results of the planning phase will be reviewed. This phase encompasses the following tasks:

- Entrance conference
- Document our understanding of significant controls and functions
- Identification of significant functions for testing and evaluation
- Review of prior audits or studies to be utilized during our engagement
- Completion of detailed audit program

Entrance Conference

We will hold a meeting with the appropriate OSC personnel. A partial list of the items we would expect to cover in the meeting would be:

- Introduce the Firm's team
- Timing of work
- Familiarize the OSC's project team with our audit approach
- Discuss OSC staff involvement
- Identify any areas of management concern

Document our understanding of significant controls and functions

We will review the OSC's documentation of functions as presented in the following:

- Administrative Manual
- Contract & Procurement Procedures Manual
- Operations Manual
- Internal Control Manuals
- Employee Handbook
- Payroll and Accounting Bulletins

Our Firm will obtain an understanding of the internal control of the OSC. The understanding will include each of the components of the control structure such as:

- Control environment sets the tone of an organization and influences the control consciousness of its people. It is the foundation for all other components of internal control, providing discipline and structure.
- Risk assessment is the entity's identification and analysis of relevant risks to the achievement of its objectives. This forms a basis for determining how the risks should be managed.
- Control activities are the policies and procedures that help ensure that management's directives are carried out.
- Information and communication are the means to identify, capture, and exchange information in a form and time frame that enable people to carry out their responsibilities.
- Monitoring is a process that assesses the quality of internal control performance over time.

Identification of significant functions for testing and evaluation

The following will be considered in determining the functions and transactions significant enough to be tested:

- Prior internal control audit determinations
- Review of organizational changes
- New OSC responsibilities
- Review of internal controls

During the interim work period, we will identify all significant internal controls and functions, fiscal operations and business processes (administrative and accounting) and make our preliminary determination as to which internal controls are considered relevant and are to be reviewed, evaluated, and tested to comply with the objectives of the Act. We will focus on the types of transactions and related controls that could materially affect the operations of the OSC, as well as the segregation of duties and operations.

Review of prior audits or studies to utilize

We will determine the extent that existing work, if any, can be relied upon and utilized by:

- Assessing studies and audits that have been performed and their scope
- Reviewing workpapers of selected studies and audits
- Determining reliance to be placed on this work
- Determining additional audit work to be performed

Completion of detailed audit program

We will complete our review of the objectives and related controls we have identified for testing and the detailed audit programs for executing our tests for approval by the project manager. The plan will include our determination of significant internal administration and accounting controls to be reviewed, tested, and evaluated. The plan will also include an outline of the specific procedures and types of tests to be performed.

2. Assessment of Significant Controls

The assessment phase will include our documentation and assessment of the OSC's established procedures. This phase will include our evaluation of the general control environment and assessment of significant accounting and administrative controls.

- Document the OSC's general control environment
- Division entrance conferences
- Document and assess significant controls

Document the OSC's general control environment

Our approach includes a thorough review of the OSC's general control environment. The general control environment is not directly associated with a particular function or transaction; however, it has a significant influence on the design and execution of controls within every function or program.

The following aspects of the general control environment will be documented:

- Organizational structure
- Integrity and ethical values
- Relationship to governing bodies
- Philosophy and operating style
- Organizational structure
- Assignment of authority and responsibility
- Commitment to competence

Since this sets the tone and affects all the various Divisions involved in the internal control audit, we will review the above factors to conclude on the adequacy of the overall framework for planning and implementing objectives and maintaining internal control throughout the OSC.

Division entrance conferences

These meetings will include a review of the objectives and related controls that have been identified for testing. These meetings would include a discussion of any questions or concerns the Division staff may have in relation to our approach.

Document and assess significant controls

For the objectives and controls identified at each Division we will determine which to test based on our review of the risk of a significant deficiency or material weakness. We will consider the volume of transactions, value of transactions, and the complexity of the process. Our documentation of the accounting systems and controls will be accomplished using, to the extent possible, existing manuals and documentation within the OSC. The review of administrative controls is critical to the engagement in that it distinguishes this audit from tests of controls performed in a standard financial statement audit. Our experience in performing Internal Control Audits in accordance with the New York State Governmental Accountability, Audit and Internal Control Act has given us direct experience in meeting the requirement of auditing and reporting on internal controls under the Act. We have previously designed a program for auditing internal controls and reporting on controls of OSC. This experience will increase our efficiency and effectiveness. The significant functional areas to be included in the review of the internal controls include the following:

Division of Retirement Services:

1. Register employees into the retirement system.
2. Determine eligibility and process benefit payments.
3. Maintain the retirement system general ledger and investment accounting records. Process retirement system cash receipts and administrative cash disbursements.
4. Receive payroll information from employers and post information to member accounts. Ensure complete and accurate billing of participating employers for contributions due to the retirement system.
5. Extract the data required to make the annual actuarial valuation. Compile and approve actuarial assumptions utilized.
6. Provide programming and technical support for all system applications.

Division of Pension Investment and Cash Management:

1. Manage investments of the Common Retirement Fund to ensure the safeguarding of principal from imprudent risks while obtaining the maximum yield.
2. Enhance the performance of the Common Retirement Fund in real estate investments, including mortgages and equity ownership, consistent with prudent underwriting standards, alternative investment opportunities, and maturity and liquidity needs of the fund to ensure the appropriate diversification of its real estate portfolio.
3. Enhance the performance of the Common Retirement Fund in alternative investments. Examples of alternative investments are venture capital and leveraged buyouts.
4. Monitor and coordinate the proxy process, initiate shareholder resolutions and solicit proxies.
5. Manage investments of the State custodial accounts to obtain maximum yield.
6. Efficiently manage the daily concentration and disbursement of State funds to arrive at a daily cash position for investment while ensuring the availability and liquidity of funds needed for daily State operations. Obtain the best banking services at a reasonable cost, obtain and monitor collateral, and adhere to the prompt payment statute.

Division of State Services:

1. Pre-audit and approval of contracts to ensure compliance with existing laws, regulations and policies.
2. Audit of agency vouchers prior to payment to ensure payments made are properly authorized and documented, processed timely, in compliance with existing laws, regulations and policies, and within pre-approved contract amounts.
3. Establish accounting and financial reporting policies and procedures that facilitate budgetary (cash) basis reporting and other statutory duties of the Comptroller, and ensure that proper controls exist to safeguard information and limit access.
4. Maintain the State's general ledger to ensure that all funds and accounts are properly established and reported with controls necessary to demonstrate compliance with state laws.
5. Ensure that State agency spending does not exceed the amounts authorized by the State Legislature. Appropriation and segregation records are established in the central accounting system within amounts provided in legislation and, for federal funds, such amounts do not exceed the federal grant award authorizations.
6. Complete, timely, and accurate review, processing, reconciliation, and reporting of cash receipt transactions.
7. Ensure the prompt and accurate recording of tax collections and refunds paid.
8. Ensure that all payments from State funds are reconciled to check and electronic payment records, appropriation charges, vouchers payable, and cash ledgers, and that no payments are released until these validations are completed each day.
9. Ensure system change projects are properly approved, performed accurately, and that segregation of duties exists.
10. Conduct on-site audit operations on payments prior to authorizing payments for tax and other refunds, unemployment insurance disbursements, workers' compensation payments and State Insurance Fund payments.
11. Establish accounting and financial reporting policies and procedures utilized in preparing the State's financial statements in conformity with generally accepted accounting principles (GAAP). Prepare the State's annual and quarterly GAAP basis financial statements.
12. Administer public authority reporting requirements.
13. Ensure that the internal controls contained in the new Central Accounting System meet or exceed the controls contained in the current system.
14. Develop and maintain a vendor responsibility system that provides enhanced efficiency and improved information in support of agency vendor responsibility review processes.
15. Develop a vendor responsibility system that provides authorized users with access while preventing unauthorized access.
16. Perform post audits of all State agencies, departments, public authorities and commissions, and New York City agencies and departments, as well as contracts issued by State and City agencies. Provide an annual summary report to the legislature covering all State agencies.
17. Conduct on-site, pre-audit operations on payments prior to authorizing payments for Medicaid disbursements.

Division of Payroll and Revenue Services:

1. Receive record and reconcile State revenues resulting from the application of the Abandoned Property Law.
2. Return Abandoned Property to the rightful owner(s).
3. Ensure that payments to employees, vendors, tax authorities (and other parties) are made in compliance with laws, union contracts, rules and policies.
4. Ensure that State agencies make payments to their employees in compliance with union contracts, laws, rules and policies.
5. Ensure that proper controls exist in the payroll system to safeguard against fraud and unauthorized system access.
6. Ensure that system changes are properly approved and performed accurately.
7. Ensure the privacy of state employee personal information.

3. Testing of Significant Controls

This phase consists of the actual tests of significant controls and provides evidence that controls are functioning as designed. It also includes the evaluations of exceptions and the summarization of audit results. The specific tasks are as follows:

- Design tests of internal controls
- Test significant internal controls
- Assess likelihood of a material error

Design tests of internal controls

We will design the compliance test in the most effective and efficient manner possible. In designing the most effective tests of controls the following concerns will be considered:

- Were the expected procedures performed?
- Were they performed adequately?
- Were they performed by someone with incompatible duties?

Test significant internal controls

Internal control tests will be used to evaluate controls routinely throughout the audit. Tests of controls are used to gather evidence indicating whether a control is functioning effectively and achieving its objectives. The evidence of the information's correctness will generally be obtained by re-performance of the control. We will use one of two methods, or a combination of these methods, to test controls over transaction procedures. These methods are described as follows:

- Inquiry and observation
- Inspection of documents, records, and reports and re-performance of certain internal control procedures

In a stronger control environment, the inquiry and observation technique provides persuasive audit evidence as to the design and effectiveness of controls. The inquiry and observation technique will be used to test supervisory controls. In such a test, the person or persons directly performing the control will be asked to walk the auditor through all steps of the procedure. Many times the inquiry and observation may be performed during our initial documentation of the system, which results in a great time savings. Occasionally, this is the only type of test that is possible.

Inspection of documents and reports will be performed where a documented control exists. Review of documentary evidence and discussion with the individual performing the control provides sufficient evidence as to the design and effectiveness of the control. The correctness of the information subject to the control is tested through re-performance of the control procedure, but may be tested through some other method. If re-performance of the control is necessary, a sample of items will be chosen.

Assess likelihood of material error

The results of our testing directly affect our assessment of the adequacy of the established internal control system. At this point in the engagement we will have concluded on the adequacy of the system design, and this final evaluation considers the evidence we will have gathered through the previous steps to determine if the established system is operating effectively.

When a control has not been applied it is referred to as a compliance deviation. The concept of what constitutes a compliance deviation in the circumstances is important and must be carefully considered for each test of a control. This area is highly judgmental; defining the deviation incorrectly can result in an incorrect conclusion on the overall system. Since the purpose of the test of a control is to gather evidence about the effectiveness of the control, all deviations are significant regardless of the dollar amount involved.

4. Reporting

The reporting phase represents the culmination of the audit process. This phase will end with the delivery of the final report and communication of opportunities to improve the system of internal control. This phase is structured as follows:

- Exit conference
- Communication of opportunities to improve the system of internal control
- Preparation of draft report
- Preparation of final report

Exit Conference

This meeting will focus on the review of any findings and provide an additional opportunity to clarify any issues before the draft report is issued. We will also provide management with a draft management representation letter to be provided on OSC letterhead outlining management's representations made during our examination.

Communication of opportunities to improve the system of internal control

This phase will consist of our presentation of any observations we identified during our audit which we believe may improve the established system of internal control. Our communication will be a summary of our observations. The form of this communication, written or verbal, would be at the discretion of the OSC.

Prepare draft report

The report will be prepared in accordance with current auditing standards and will contain the following, as appropriate:

1. The introductory paragraph will reference the schedule of significant control objectives defined for the review.

2. The scope paragraph will contain a statement indicating that the internal accounting and administrative controls were reviewed in accordance Generally Accepted Government Audit Standards (GAGAS). Our procedures for identifying the types of errors and irregularities that may occur, determining the internal control procedures that should prevent or detect such errors and irregularities, determining whether the necessary procedures are prescribed and followed, and evaluating any significant weaknesses will be referenced in the scope paragraph. We will state either that all significant internal controls related to the schedule of significant control objectives were reviewed or that all such controls were reviewed except for those described. All significant internal controls related to the control objectives will be reviewed.
3. The third paragraph will state that, because of inherent limitations of any internal controls over financial reporting, errors or irregularities may occur and not be detected. In addition, the paragraph will state that projections of any evaluation of the internal control structure to future periods are subject to the risk that the internal control structure may become inadequate because of changes in conditions, or because the degree of compliance with the policies or procedures may deteriorate.
4. The fourth paragraph will state a conclusion as to whether management's assertion about the effectiveness of the entity's internal controls over financial reporting as of the specified date is fairly stated, in all material respects, based on the control criteria.

The body of the report will include the following:

- An identification of the significant internal controls determined to be relevant for the OSC to achieve its objectives effectively, noting by categories those reviewed and listing any essential controls not reviewed along with the reasons for not reviewing those controls.
- A statement whether the internal controls that have been determined to be relevant to the operations of the OSC are established and functioning in a manner that provides reasonable assurance that the objectives of the internal controls are accomplished, and that the study and evaluation performed included considering the types of errors and irregularities that could occur, determining the internal control procedures that should prevent or detect such errors and irregularities, determining whether the necessary procedures are prescribed and are being followed satisfactorily, and evaluating any significant or material weaknesses.
- A statement assuring that no material matters (other than those disclosed in the report, if any) have become known which would cause the belief that the internal controls that have been determined to be relevant to the operations of the OSC fail to comply with or meet the objectives of internal control. (If no material matters are disclosed in the report, this statement will not be included.)
- The report shall identify any significant weaknesses in the system of internal controls that would cause it to fail to achieve any of the OSC's internal control objectives.

- A description of any significant or material weaknesses identified and our recommendations for corrective action. The description of such weaknesses will follow this specific format for reporting a finding:
 - A statement of condition (i.e., what is)
 - The criteria (i.e., what should be)
 - The effect, the cause (if known)
 - The recommendation for corrective action
- Any finding will contain sufficient information for OSC officials to initiate timely corrective action. Findings of limited significance will be included in the report under a caption identifying them as such. All findings will be grouped according to applicable Division. Non-significant or immaterial findings will be excluded from the report and may, if deemed appropriate, be identified in a separate management letter or orally.

Prepare final report

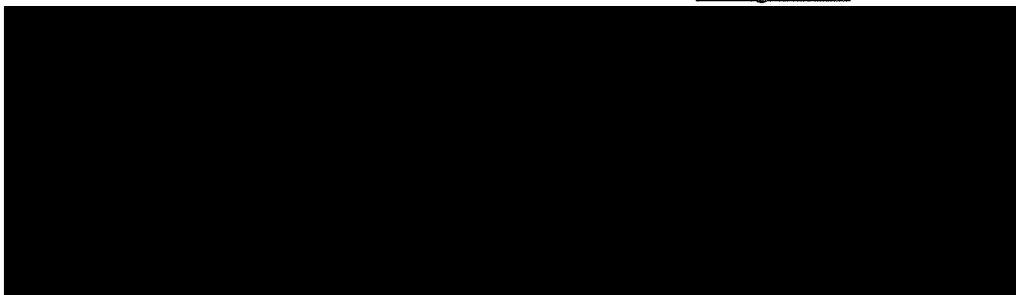
This task is the culmination of the audit. It consists of the final editing of the draft for inclusion of any OSC comments and delivery of the final report.

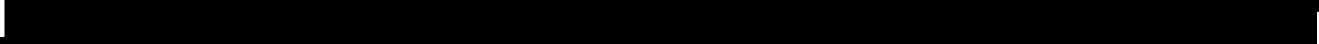
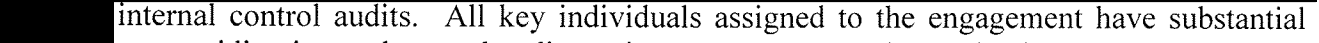
- *A staffing plan identifying all staff, including titles, to be assigned to the audit. Provide information regarding the number, qualifications, and experience of staff to be assigned including the auditing team qualifications enabling them to render an opinion on whether OSC's system of internal controls are established and functioning in a manner that provides reasonable assurance that they meet the objectives of internal controls as defined in Executive Law. Provide OSC with staff allocation and hours expended per Deliverable and for the entire project. The staffing plans titles and hours must agree with what is in the Cost proposal (Hourly rates and associated costs for all staff and titles must be included in the cost proposal only).*

Achieving our present position in the profession has come as a result of being responsive to the needs of our clients. Accordingly, we will assemble an engagement team that will include audit personnel with extensive experience in performing audits of systems of internal controls. A combination of a coordinated team approach and up-to-date knowledge allows for the most efficient approach to providing comprehensive professional services. Our Firm will commit the resources necessary to ensure compliance with the terms of the contract. The following individuals will be assigned to this engagement:

Staff member

Designation

Please see the section below for the resumes of the individuals to be assigned to the engagement. These individuals are the same individuals assigned to our engagements with the 

 internal control audits. All key individuals assigned to the engagement have substantial experience providing internal control audit services to governmental organizations.

We will meet with representatives of OSC and establish a definite time program for the performance of our services. The time program will be established in such a way to ensure that work is efficient and structured in such a way as to avoid disrupting the day-to-day routine duties of the OSC staff. The time program will follow the calendar of events as detailed in the request for proposal. A schedule of the projected hours is detailed as follows. It is anticipated that the majority of services will be performed at OSC offices (on-site).

<u>Title</u>	<u>Hours</u>
Director / Partner	
Manager / Supervisor	
Senior accountant	
Staff accountant	

A schedule of the projected hours by deliverable is detailed as follows:

<u>Deliverable</u>	
Detailed audit plan	
Fieldwork, meetings and testwork	
Audit report	

- ***The firm resume and the resumes of the professional staff to be assigned to this engagement, including a description of any special recognition that professional staff anticipated to be assigned to this engagement have received for expertise in the areas contemplated by the RFP, including published articles, books, papers, teaching, memberships in professional organizations, etc.***

Toski & Co., CPAs, P.C. was founded on the principle of providing our clients with the same high quality level of service expected from a national firm yet with the dedicated involvement that can only be developed by personal attention. We are dedicated to the pursuit of imaginative, intelligent and proactive solutions to all of your accounting and consulting service needs.

Toski & Co., CPAs, P.C. has achieved its present position in the accounting profession by providing quality services on a timely basis, for reasonable fees. Accounting firms should be evaluated in light of several important conditions:

- The firm's qualifications, experience and its ability to provide auditing, accounting and consulting services for a reasonable fee.
- The firm's ability to assemble and commit a team of professionals experienced in providing audit, accounting and consulting services for governmental organizations.
- The firm's involvement of client personnel and active participation and coordination on a year-round basis.
- The firm's commitment to provide services which will contribute to the success of our clients.

Our Firm provides audit, accounting and consulting services to numerous organizations located throughout New York State annually, including over 175 governmental organizations. The Firm's Governmental Audit Practice Group consists of 50 highly trained professionals. Please see Appendix A for the qualifications of key personnel and Appendix B for a partial listing of governmental organizations which are our clients. Additionally, please see Appendix D for articles published by [REDACTED] a partner assigned to the engagement.

Professional Relationships

Our staff members are actively involved in various professional organizations, including the American Institute of Certified Public Accountants, New York State Society of Certified Public Accountants, Pennsylvania Institute of Certified Public Accountants, Virginia Society of Certified Public Accountants, New York State Economic Development Council, the BDO Alliance USA, New York State Association for School Board Officials, the Healthcare Financial Management Association, Information Systems Audit and Control Association, Association of Certified Fraud Examiners, National Association of Nonprofit Accountants and Consultants, Government Finance Officers Association, AICPA Government Audit Quality Center, Association of Healthcare Internal Auditors, the Institute of Internal Auditors and the New York State Internal Control Association.

Peer Review

Toski & Co., CPAs, P.C. retains an independent accounting firm to conduct a review of its system of quality control every three years in accordance with the rigorous standards of the American Institute of Certified Public Accountants. In June 2014, our Firm successfully completed the most recent peer review of its accounting and auditing practice. The review determined that the Firm complies with the stringent quality control standards set by the American Institute of Certified Public Accountants. Our Firm has received the highest rating possible (pass) with no letter of comments being required in each of its last eight peer reviews. According to the peer review team, less than one percent of the firms in the nation achieve this level of excellence. We believe that this attests to our commitment to quality. Peer reviews, which are performed every three years, are required of all CPA firms and are conducted in accordance with rules issued by the American Institute of Certified Public Accountants. (See Appendix C for a copy of the report issued in connection with our most recent peer review).

BDO Alliance USA

We are an independent member of the BDO Alliance USA. The BDO Alliance USA is a division of BDO USA, LLP, a national professional services firm providing assurance, tax, financial advisory and consulting services to a wide range of publicly traded and privately held companies. The company serves clients through 52 offices and more than 400 independent alliance firm locations nationwide.

Members tap into the resources of BDO USA, LLP and other BDO Alliance USA members to strengthen proficiency in a variety of disciplines, gain extensive domestic and global coverage, explore new business opportunities, and secure and maintain clients. Our clients benefit from the collective knowledge and experience of an association of independently owned firms providing excellent client service.

Government Audit Quality Center

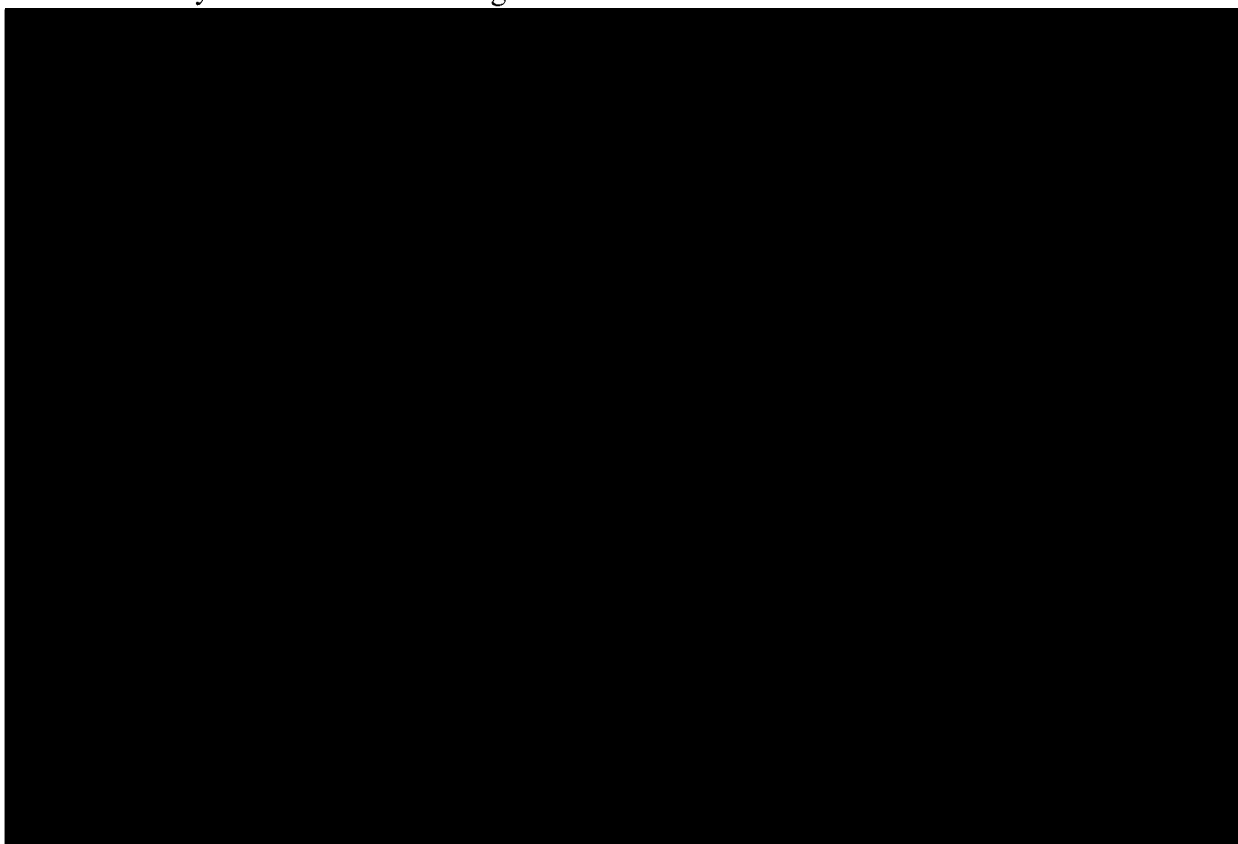
We are also a member of the American Institute of Certified Public Accountants Government Audit Quality Control Center (GAQC). The GAQC promotes the importance of quality governmental audits and the value of such audits to purchasers of governmental audit services. As members, we have access to the latest developments in accounting, auditing, and the various rules and regulations that affect governmental audits. We also receive periodic updates on current issues through news alerts and Webcasts. We are proud of the quality of our work and in order to ensure that this high level of quality is maintained, we have established a comprehensive quality assurance program. The program starts with hiring the best people available and continues with extensive continuing education, an annual minimum of 40 hours per staff member. Our involvement in the GAQC is optional, but indicates a level of commitment above non-member Certified Public Accounting firms. Our participation requires that our firm and personnel attain additional continuing professional education on an annual basis.

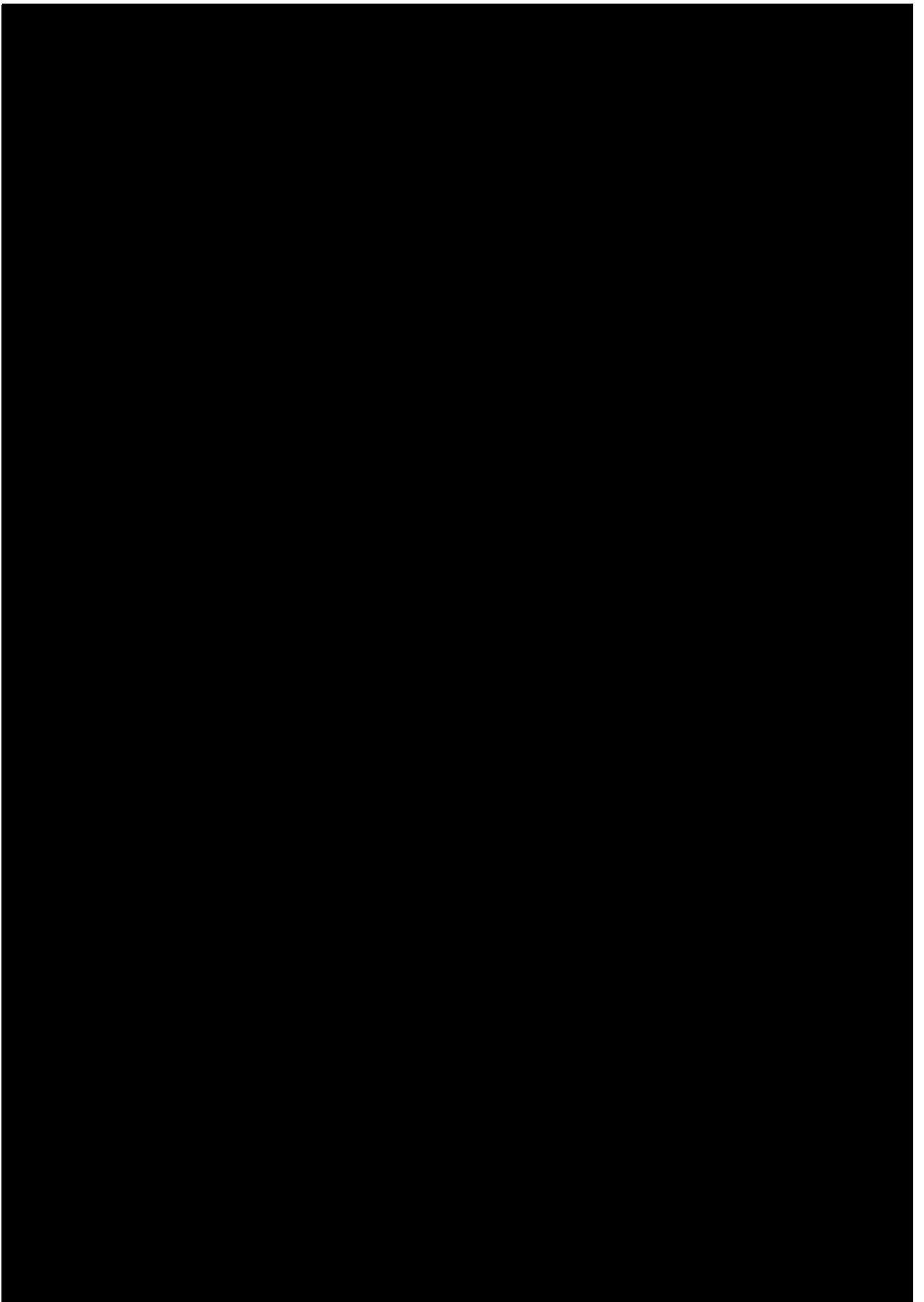
Assigned Staff Qualifications and Experience

Achieving our present position in the profession has come as a result of being responsive to the needs of our clients. Accordingly, we will assemble an engagement team that will include audit personnel with extensive experience in performing audits of systems of internal controls in accordance with the New York State Governmental Accountability Audit and Internal Control Act. A combination of a coordinated team approach and up-to-date knowledge allows for the most efficient approach to providing comprehensive professional services. The partners assigned to this engagement are the same individuals assigned to our audits of the internal control systems of the

[REDACTED]

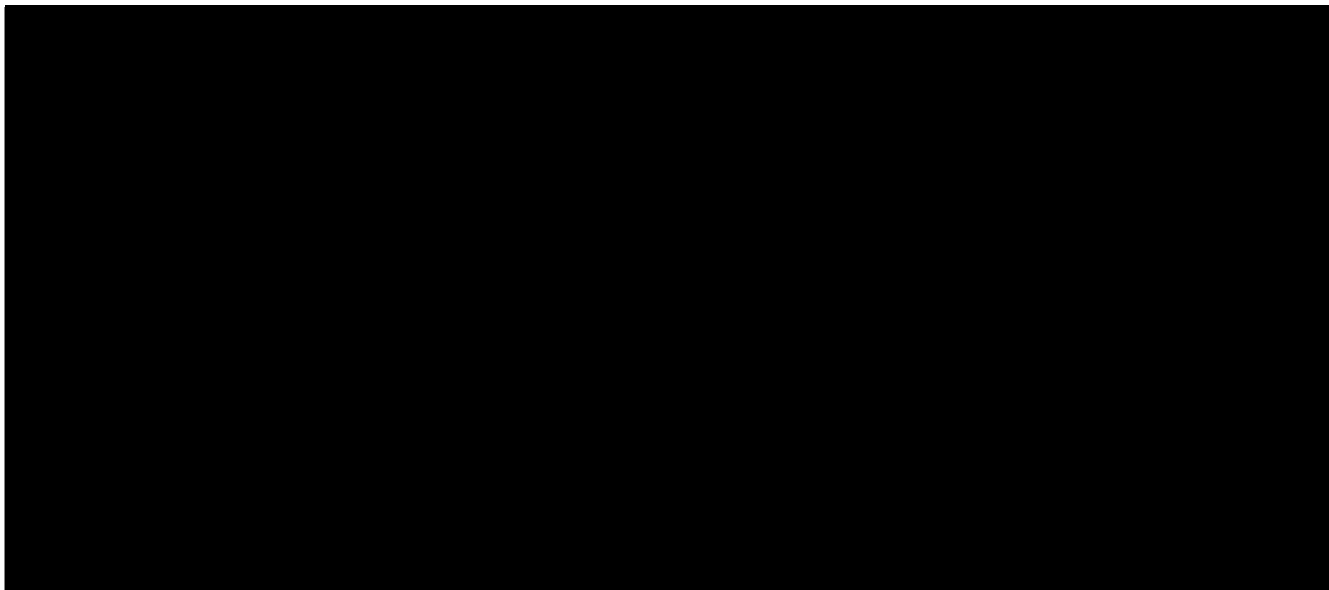
[REDACTED] All individuals assigned to the engagement have substantial experience providing internal control services to governmental organizations. Please see Appendix A for resumes of individuals available for assignment under this contract. The key individuals to be assigned and their roles are as follows:





MWBE Participation

Our Firm would like to express its willingness to engage a subcontractor which is a certified minority and women-owned accounting firm. The percentage of services to be assigned to the subcontractor will be at least 20% Minority and Women Owned Business Enterprise.



OTHER SIGNIFICANT INFORMATION

- Experience - Since Toski & Co., CPAs, P.C. “specializes” in providing audit and related services to governmental organizations, our field staff is experienced in providing such services.
- Technology - All of our field staff are equipped with laptop computers and have access to various software packages and databases (e.g. data extraction software, flowchart software, Microsoft Office, etc.) and other electronic means to ensure that the audit is performed in the most efficient manner.
- Equal Opportunity Policy - Toski & Co., CPAs, P.C. is an equal opportunity employer and as such possesses a firm commitment to affirmative action and to hiring only the best qualified candidates regardless of gender or ethnic origin. Toski & Co., CPAs, P.C. does not discriminate against any employee or applicant for employment because of race, creed, color, national origin, sex, age, disability or marital status.
- Continuing Education - With regard to continuing professional education, each of our staff members is required to complete an annual minimum of 40 hours of continuing education programs approved by the American Institute of Certified Public Accountants. Additionally, since we perform audits in accordance with Government Auditing Standards (over 330 each year), our staff members must complete at least 24 of the 80 hours (over a two-year period) of continuing education in subjects directly related to the government environment and government auditing.

* * * * *

We would consider it a distinct privilege to provide professional services as outlined in this letter or any additional services you may desire. Please contact us if there are any questions regarding this letter.

A copy of this letter is enclosed; if the terms of this proposal are satisfactory to you, please sign the copy and return it to me at your convenience.

ACCEPTED:

TOSKI & CO., CPAs, P.C.

NEW YORK STATE OFFICE OF THE
STATE COMPTROLLER

By:



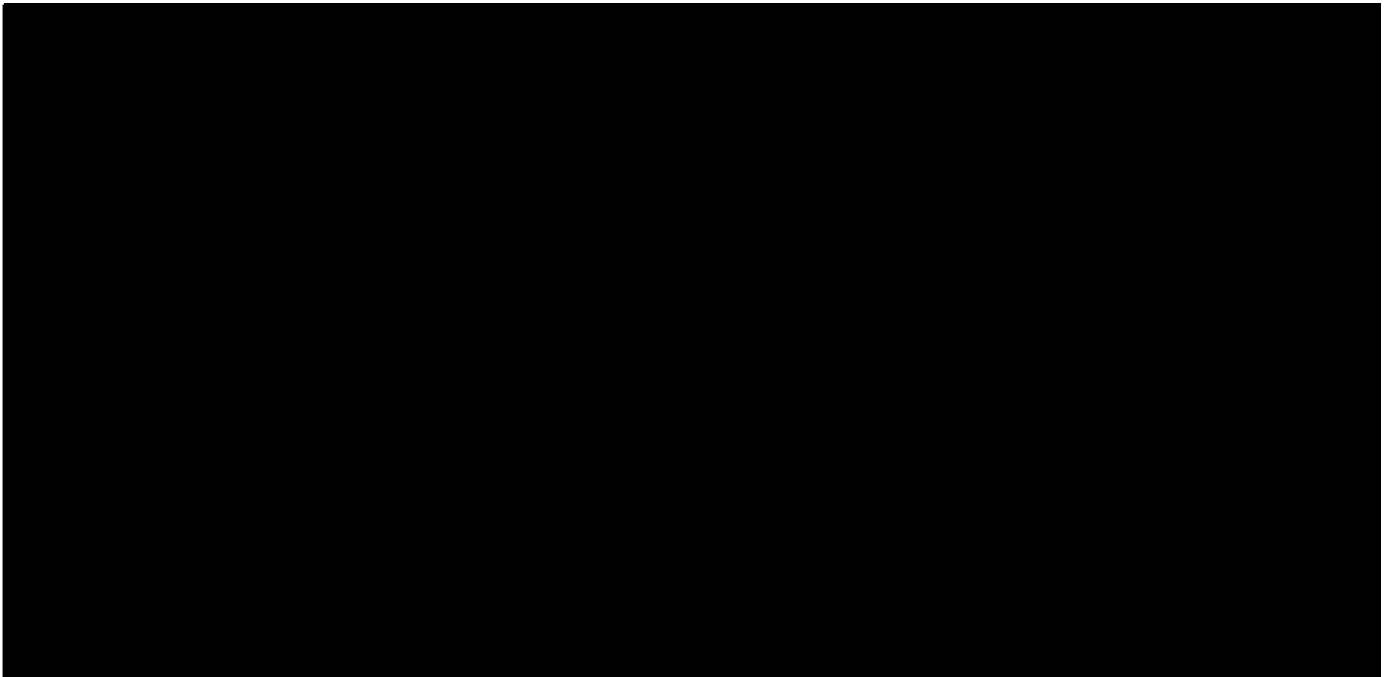
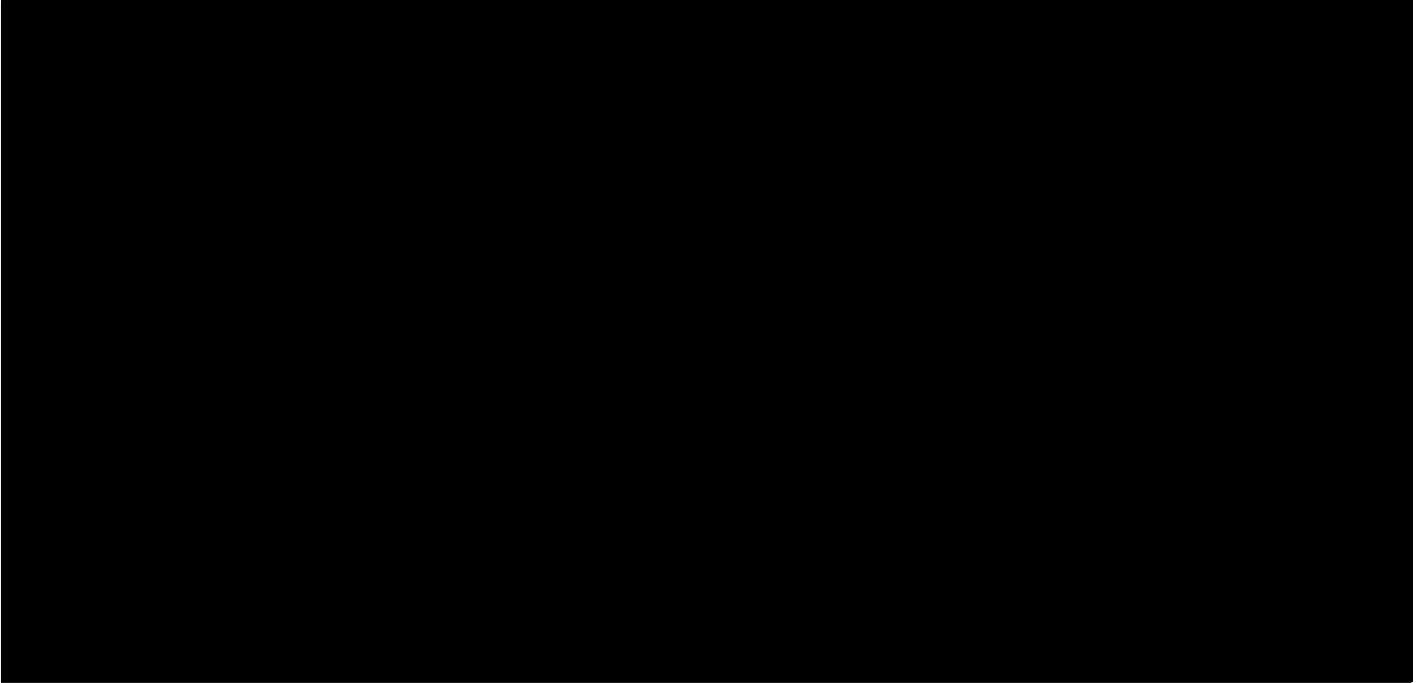
Douglas E. Zimmerman, CPA
Managing Director

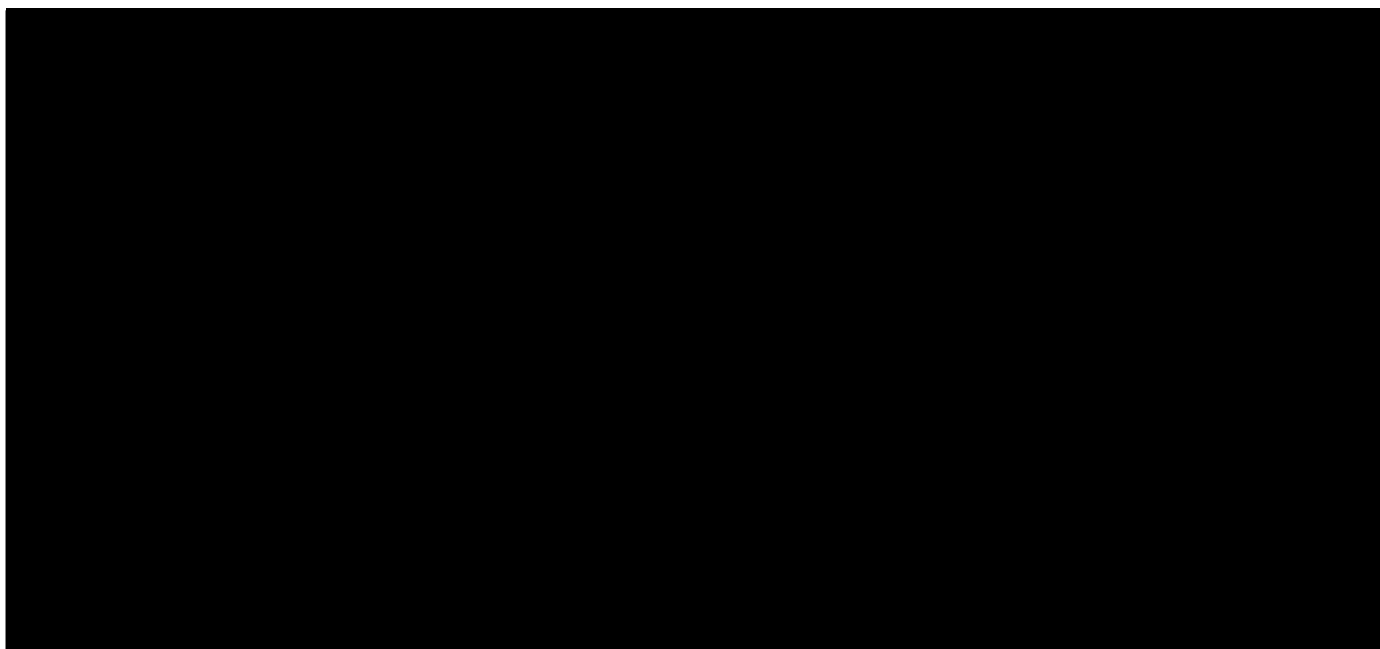
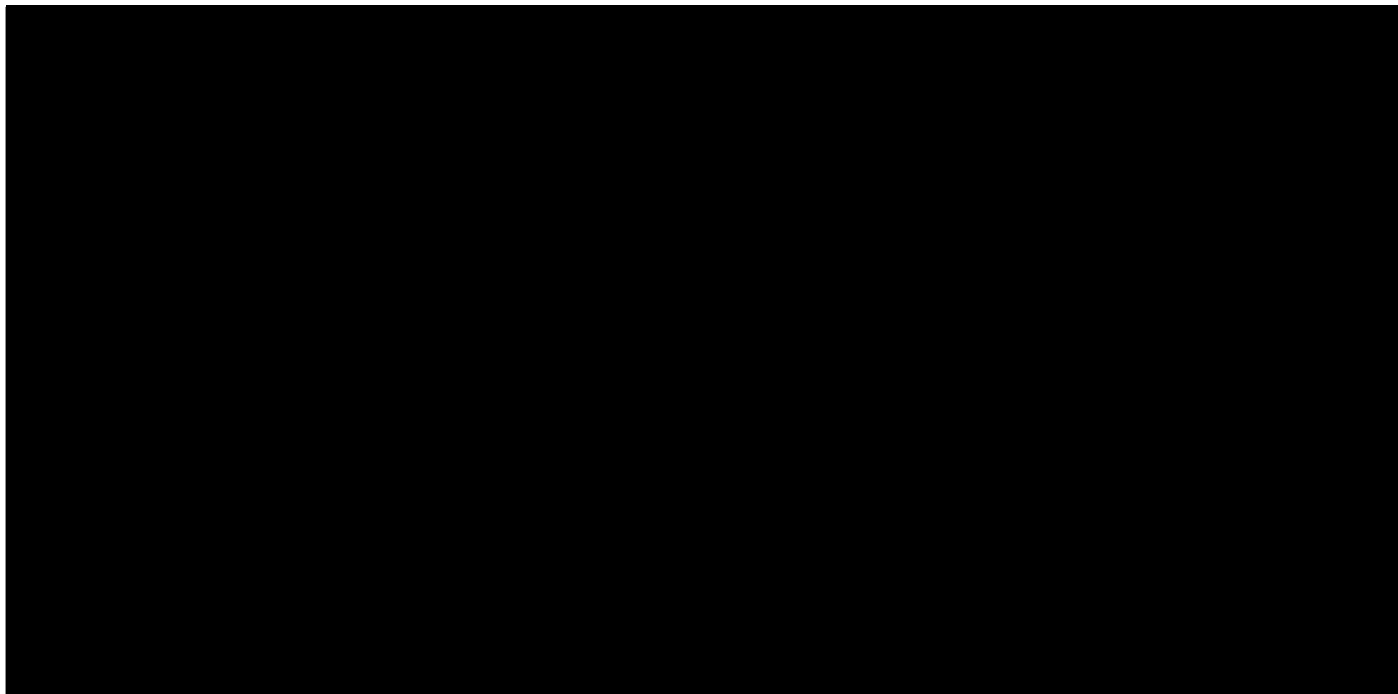
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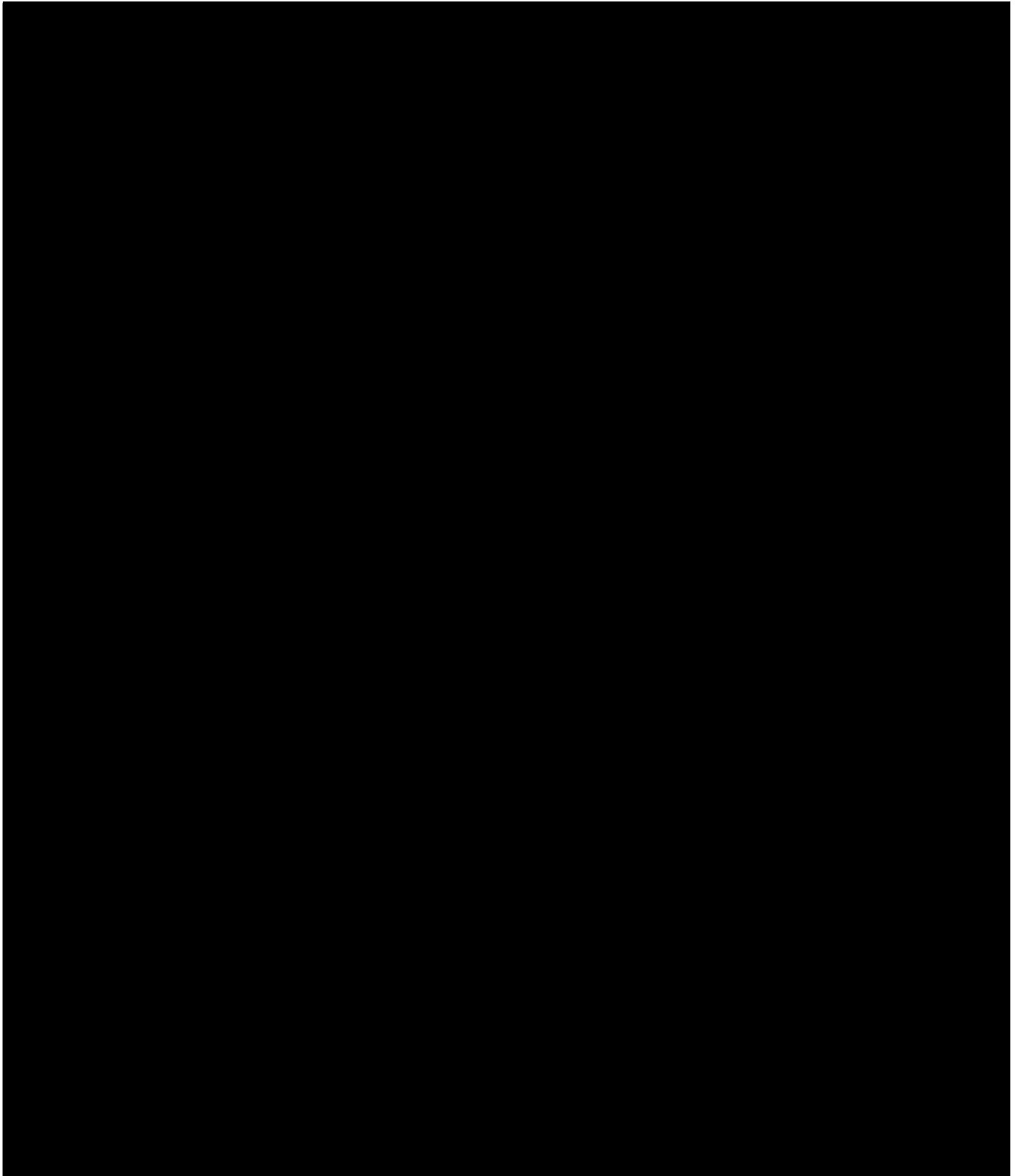
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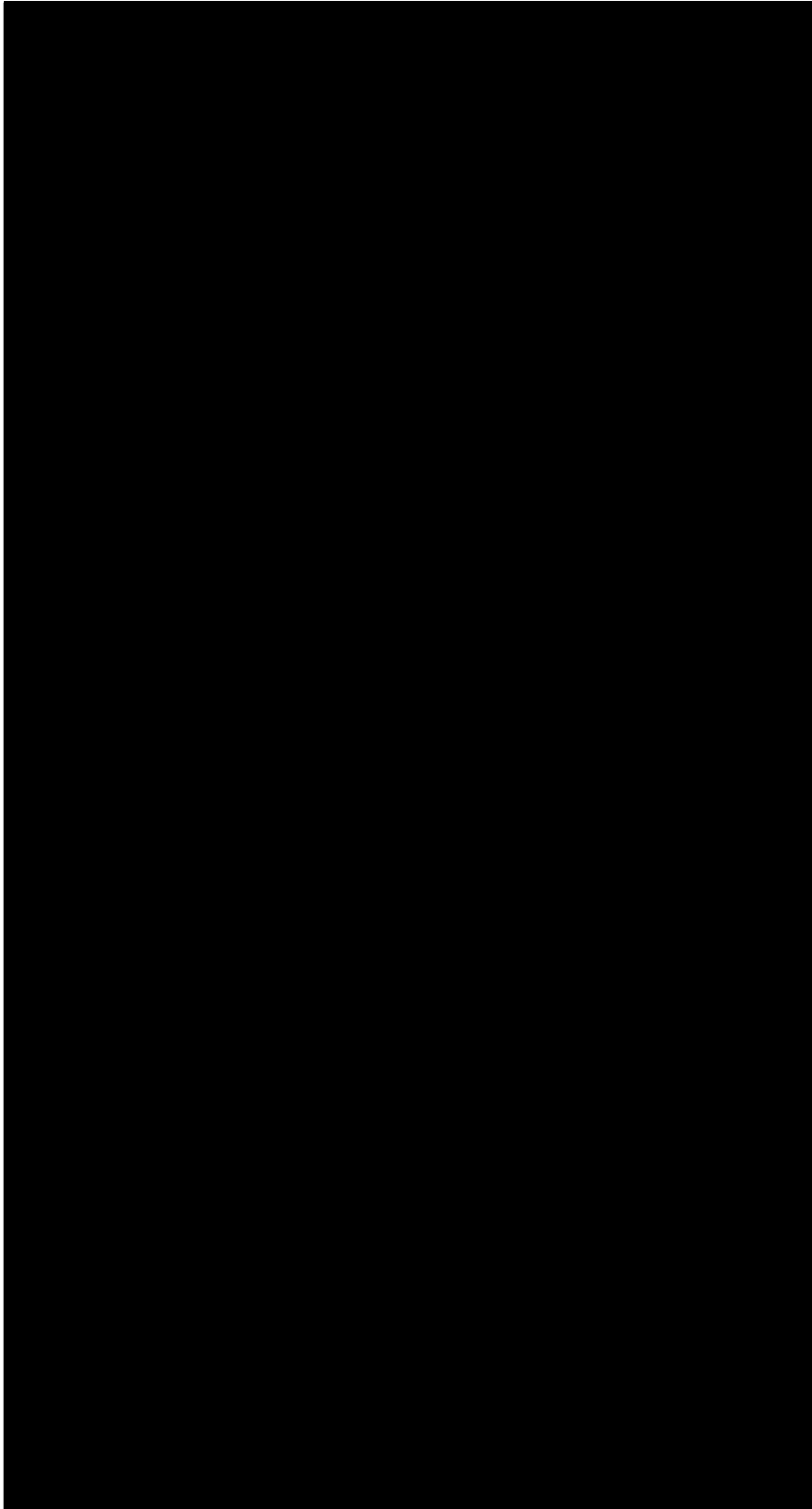
BACKGROUND AND QUALIFICATIONS
OF PERSONNEL





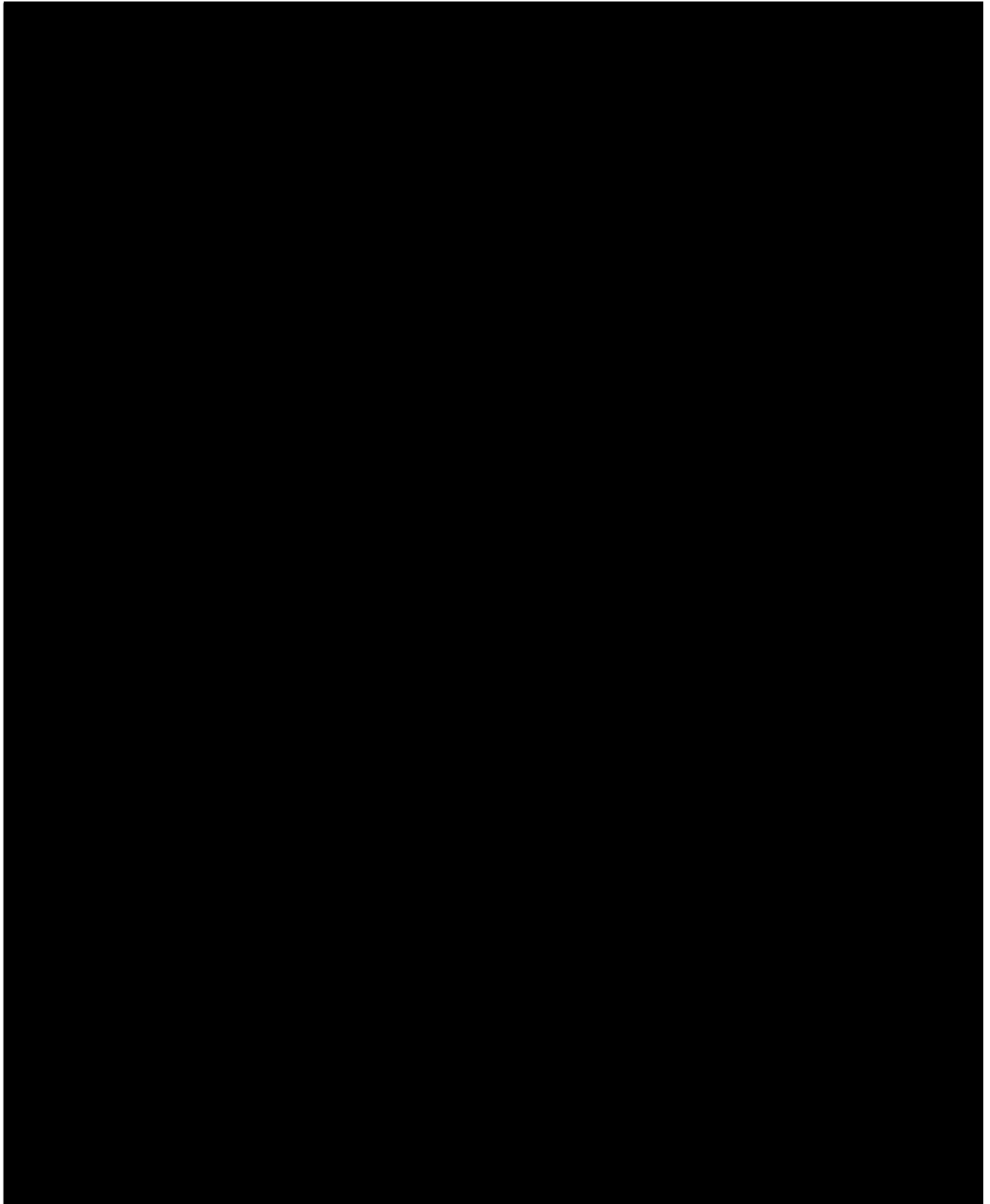


PARTIAL LISTING OF GOVERNMENTAL
ORGANIZATIONS WHICH ARE OUR CLIENTS



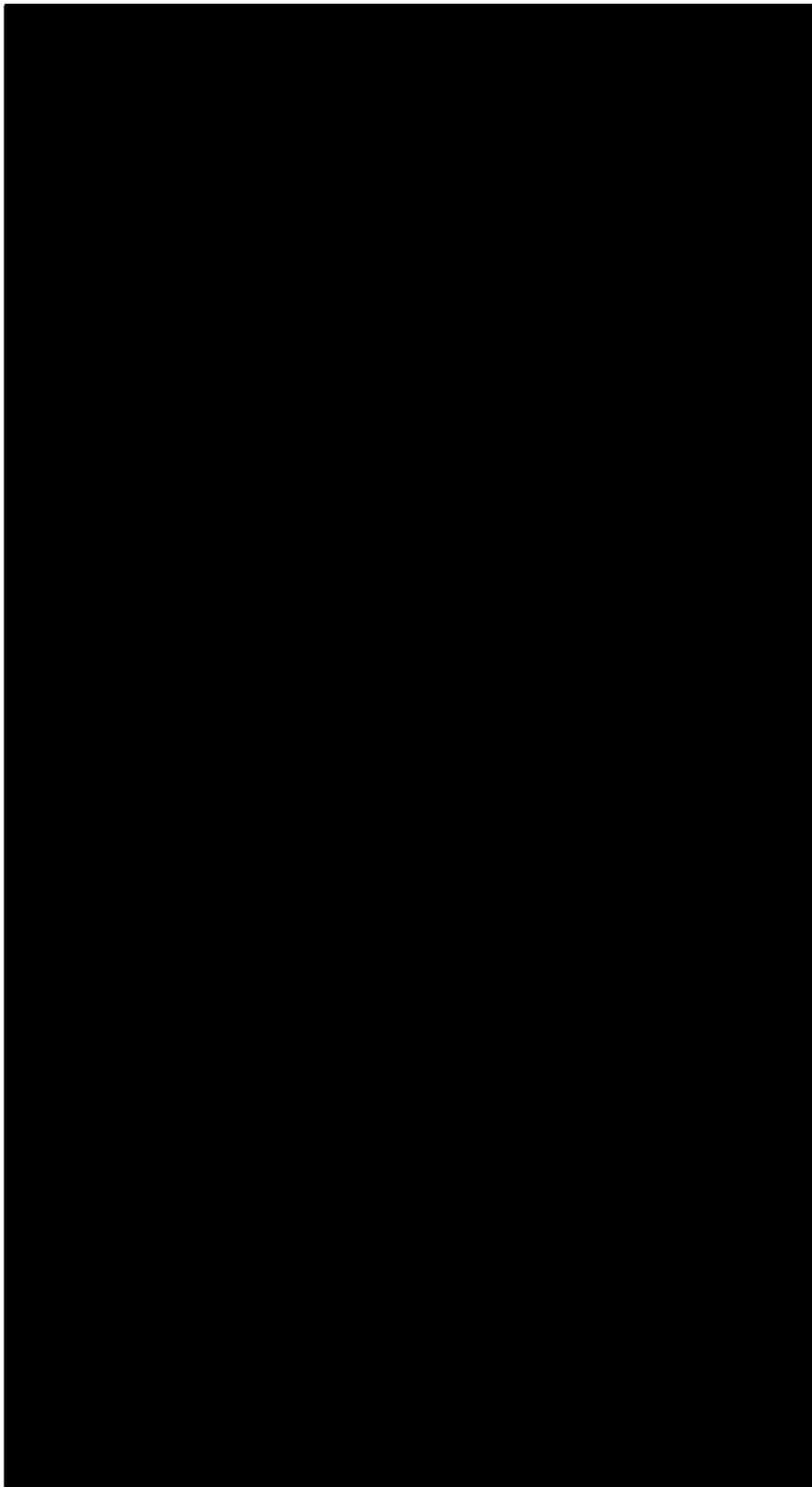
* Audit conducted in compliance with the provisions of Office of Management and Budget (OMB) Circular A-133;
Audits of States, Local Governments and Non-Profit Organizations.

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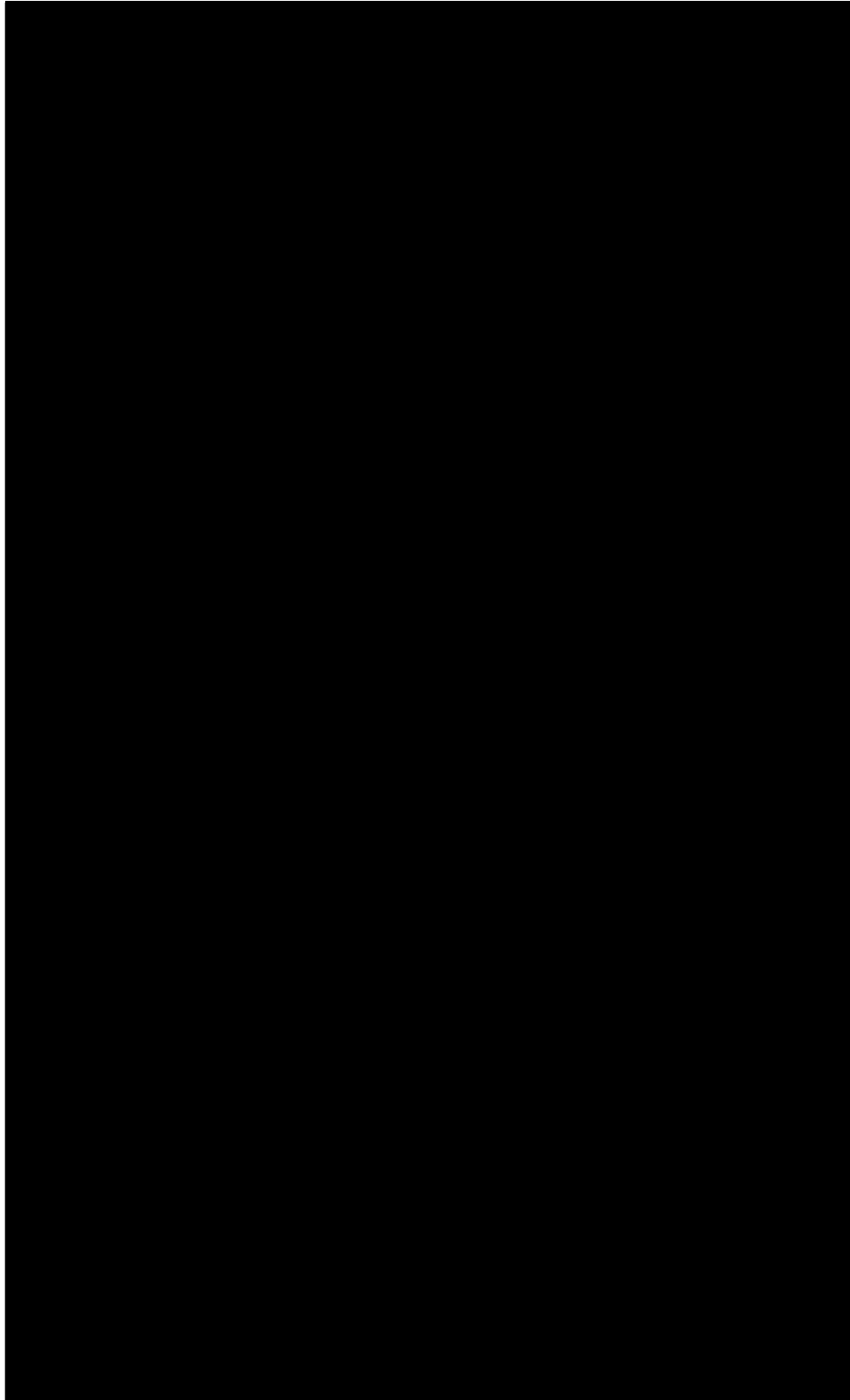
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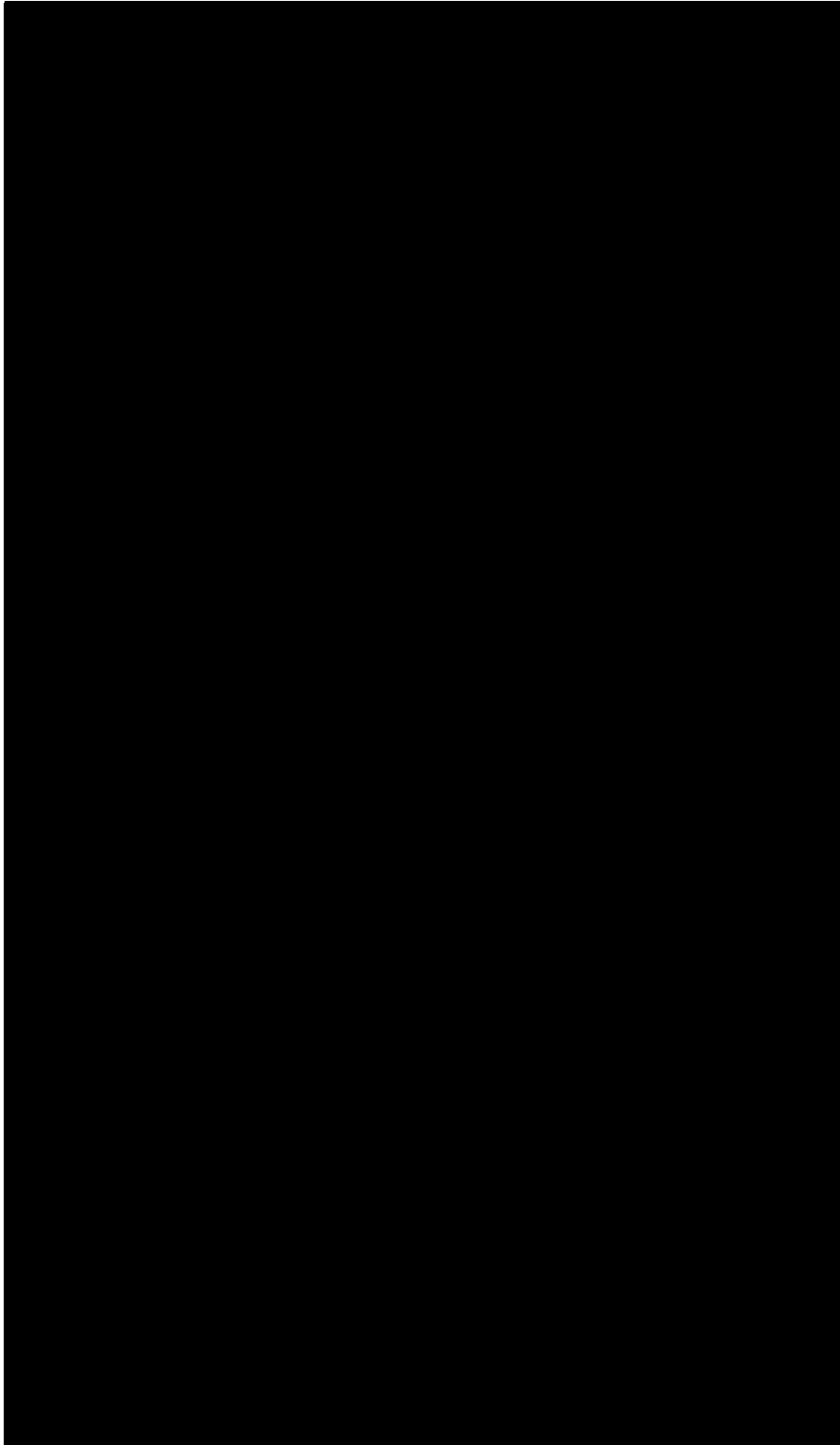
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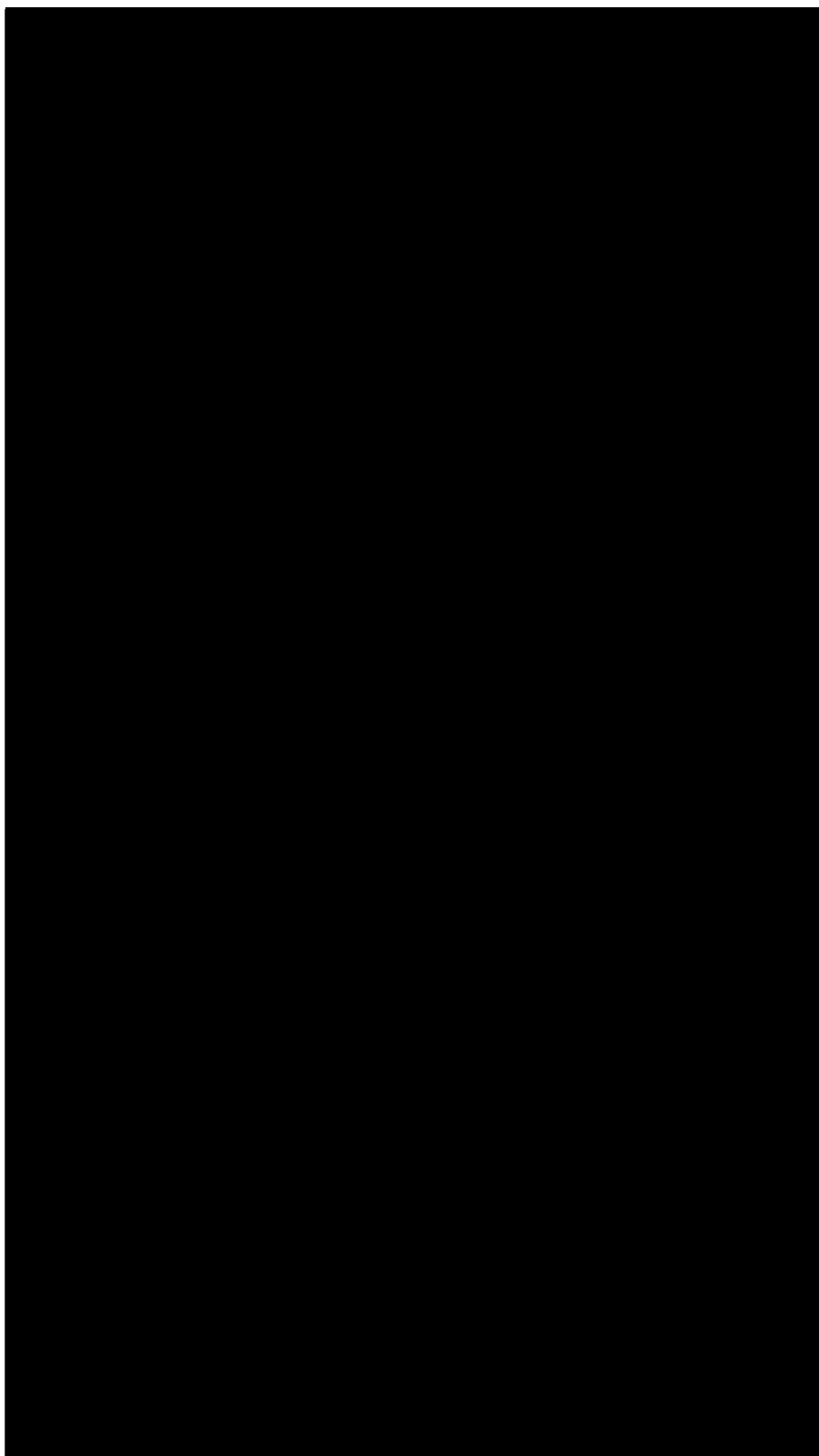
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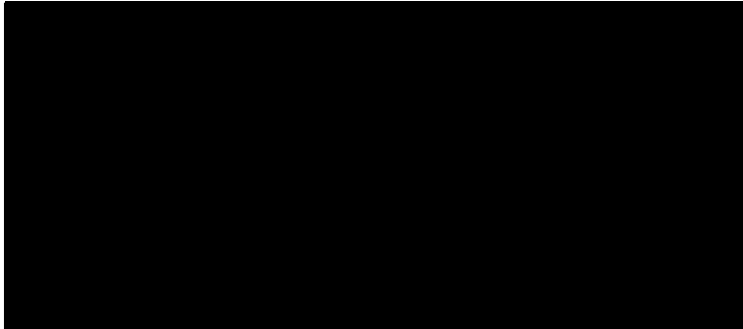
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Lisa M. Altschaffl, CPA

SYSTEM REVIEW REPORT

June 11, 2014

To the Shareholders of Toski & Company P.C.
and the National Peer Review Committee

We have reviewed the system of quality control for the accounting and auditing practice of Toski & Company P.C. (the firm) applicable to engagements not subject to PCAOB permanent inspection in effect for the year ended November 30, 2013. Our peer review was conducted in accordance with the Standards for Performing and Reporting on Peer Reviews established by the Peer Review Board of the American Institute of Certified Public Accountants. As a part of our peer review, we considered reviews by regulatory entities, if applicable, in determining the nature and extent of our procedures. The firm is responsible for designing a system of quality control and complying with it to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Our responsibility is to express an opinion on the design of the system of quality control and the firm's compliance therewith based on our review. The nature, objectives, scope, limitations of, and the procedures performed in a System Review are described in the standards at www.aicpa.org/prsummary.

As required by the standards, engagements selected for review included engagements performed under *Government Auditing Standards* and audits of employee benefit plans.

In our opinion, the system of quality control for the accounting and auditing practice of Toski & Company P.C. applicable to engagements not subject to PCAOB permanent inspection in effect for the year ended November 30, 2013, has been suitably designed and complied with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Firms can receive a rating of *pass*; *pass with deficiency(ies)* or *fail*. Toski & Company P.C. has received a peer review rating of *pass*.

A handwritten signature in cursive script that reads 'Deluzio & Company LLP'.

Deluzio & Company LLP

Appendix D

Publications

An CPB StoneBridge Company

[Fraud & Forensics](#) ▾ [Compliance Auditing](#) ▾ [Business Valuation](#) ▾ [Government Contracting](#) ▾ [Litigation Support](#) ▾ [Mergers & Acquisitions](#) ▾
[Resource Library](#) ▾[Fraud & Forensics Library](#) ▾[Business Valuation Library](#) ▾

Using the Public to Monitor Compliance

By Jim Marasco, CPA, CIA, CFE

After 9/11, an interesting trend started occurring – public officials came to realize that they alone cannot safeguard this country. Whether all of them bought into the concept is unsure, but the public's help started playing a larger role and it's started to pick up steam.

The Boston Marathon

The recent attack at the Boston Marathon further exemplifies this phenomenon. After law enforcement pieced together evidence and collected surveillance photos, they decided to release them to the public for help. Almost immediately, they learned the perpetrators' identities, where they shopped, where they lived and everything else they needed to know to apprehend those responsible.

It's All Around Us

Whether we realize it or not, most of us are playing a vital role every day. It's become so commonplace, most don't give it a second thought. There's a good chance you're helping to safeguard your own company or members of the general public without realizing it.

Next time you walk through an airport, look and listen. Over the intercom, you're asked to report any abandoned bags or suspicious activity to security personnel. When you purchase coffee or donuts, observe the register. Many fast food concepts will have a placard at the register that reads something similar to, "If we don't provide a receipt, it's free" or some less generous ones may state, "If a receipt isn't offered, please contact management at 1-800-....". The catch is they're using you to watch their employees. They want to ensure every sale gets tendered into the register. Forcing a receipt to be generated assures management that all sales are being recorded. And you just thought they were concerned about your expense report documentation!

As you watch TV in your family room, take special note of the commercials from cable or insurance companies addressing fraud. The commercials are educating the public about the issue, how to spot it and the impact it has on all of us. More importantly, they instruct the viewer how to report suspected allegations.

Occupational Fraud

The Association of Certified Fraud Examiners reports in their 2012 Report to the Nation that organizations lose approximately 5% of their revenues to occupational fraud (fraud in the workplace), with the median loss at \$140,000 per occurrence. As we peer back a decade ago, we learn that most fraud was discovered accidentally. In 2002, with the passing of Sarbanes-Oxley legislation, hotlines became mandatory for public companies. This concept has caught on in the private sector as well. Fast forward to today and hotlines are the most prevalent source of how frauds are discovered by organizations. They've migrated from a voice recorder at the end of an 800 number to live trained operators and detailed web-based reporting systems. Companies are not only encouraging their employees to report anomalies, but their vendors and customers as well. As a result, incidents involving financial fraud, human resource infractions and HIPAA privacy concerns are becoming exposed, whereas in the past, they may never have surfaced.

Technology

Technology has accelerated the evolution of this process. A few months ago, while traveling in the Southwest, my associate and I both received unsolicited text messages from our phone carriers alerting us to a regional Amber alert. The same message was being broadcast on the electronic highway information screens in the area. Cell phone companies are alerting their customers to public safety notices like this automatically if you're in the area affected. Law enforcement has discovered it's a lot easier to find a particular vehicle with a few hundred thousand private citizens being vigilant versus just relying on a few public servants.

Getting Everyone Involved

The most effective organizations in soliciting help are those that work hard to educate the potential users. If the objective is to safeguard procurement process, then it pays to educate your vendors or bidders of your rules and regulations. If they happen to spot something abnormal, they need a means to report it into someone independent within the organization. Employees should be taught the difference between fraud, waste and abuse, in addition to what constitutes tolerable behavior. A strong tone at the top should be displayed and expectations clearly communicated. Employees need to be informed of the possible consequences to the entire organization resulting from the fraudulent actions of a few.

The general public is no different. Today, there are more than 150 million smartphones in the U.S. alone. People are walking around with hand-held cameras, video recorders and the Internet at their fingertips. All of them could be a resource to help thwart fraud and crime. To tap this resource, there are three important components:

- Alert individuals to the specific red flags or warning signs you are concerned about
- Provide a means to report the allegations
- Inform them of the consequences of inaction and the potential impact it could have on them

Safeguarding Your Organization

As you work to safeguard your organization from various risks or the citizens you may be tasked to protect, don't lose sight of the most important resource out there – the public. Let them help be your eyes and ears. Give them an easy way to report suspicions and act upon those signals. It may just be the most cost effective tool you'll encounter.

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Using Social Media to Curtail Fraud

by Jim Marasco, CPA, CIA, CFE

Fraud Matters, Winter 2013

In the last ten years, we've witnessed a revolution of sorts in how people and businesses communicate with each other. The birth of a whole new industry has taken root – the Social Media phenomenon has flourished. Learning to manage this outlet can not only grow your business, but can help safeguard it as well.

Social Media has been defined by Webster's as "forms of electronic communication through which users create online communities to share information. Most of us now assimilate this with Facebook, Twitter, LinkedIn, blogging, etc. A tremendous amount of information is being shared with the general public everyday. Learning to use this information to safeguard your organization could give you a competitive edge.

Hiring

Most companies are now requiring background evaluations. In addition to criminal checks, verifications with on-line databases are now easier to perform than ever. A simple Google search can turn up a treasure trove of valuable information. In addition, checking the sex abuse registry, professional license credentials and academic validation has become simplified and routine. Some companies will also review public pages of applicants' MySpace or Facebook accounts. In some states, legal battles have ensued over whether an employer has a right to request access to someone's private profiles. By using information that is easily attainable and performing due diligence on the front end of the hiring process, you may save yourself from problems later on.

Internet Retail

For some manufacturers/distributors, surfing Internet sites like Ebay or Craig's List for their unused products has become routine. By checking the quantities available and the pricing that's being offered, companies can spot possible theft issues from within their own organization or their retailers.

Coupon or Discount Fraud

Organizations offering discount codes or coupons should be routinely changing these offers and searching the Internet for their unauthorized distribution. Numerous sites are available that offer discount codes and printable coupons for nearly all retailers. Unknowingly allowing their use could prove disastrous to your margins.

Smart Phones

As smart phones are growing more popular, technology and sophistication have become powerful tools to shoppers. For example, applications like QRReader and ScanLife have made it simple to scan products and check their prices versus competitors in seconds. Offering to beat competitors' prices by 15% could prove disastrous with the ease in which customers can verify this information. In addition, "showrooming" has become popular. This occurs when customers visit brick-and-mortar stores to examine products and then search the web for better pricing. Savvy retailers are becoming attuned to this practice and are pricing their products accordingly.

Investigations

Social media is increasingly being used in performing investigations. Insurance companies are using Facebook to investigate individuals collecting disability or workers compensation to monitor a recipient's activities or to validate other information. Other organizations are watching at what point in the day their employees are posting to their accounts or where they might be while calling in sick.

Examining the profiles and pictures of suspected perpetrators has also proved valuable. Social Media allows you to place a name with a picture and examine close associates who may also be involved with the fraud being investigated.

Legal Issues

While we've examined a few ways social media is being used to safeguard companies, the possibilities are endless. However, organizations should be aware of what they can legally do in their own jurisdictions. Basing hiring decisions on what you discover on-line may have to be disclosed to the applicant. In addition, denying someone financing on a loan or canceling their workers compensation benefits could result in legal repercussions. Although Social Media has proved incredibly valuable to fraud examiners, it's probably best used in conjunction with other fraud prevention techniques.

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The Allure and Danger of Affinity Fraud

by Jim Marasco,
The Daily Record, August 2014

Affinity frauds usually represent investment schemes that target members of identifiable groups, such as religious or ethnic communities, the elderly, or professional groups. The perpetrators who promote affinity scams are usually members of the group and usually escape prosecution because of the tight-knit structure that exists. Those that fall victim feel embarrassed and usually try to work things out themselves versus seeking outside assistance. This compounds the ability of law enforcement officials to become aware of an affinity scam.

How it works

According to the SEC, people who perpetrate affinity frauds often enlist respected community or religious leaders from within the group to spread the word about the scheme by convincing people that a fraudulent investment is legitimate and worthwhile. Many times, those leaders become unwitting victims of the perpetrator's ruse.

Ponzi or pyramid schemes are typically popular among affinity frauds. Since Ponzi frauds need to attract new investor money into the scheme to pay out earlier investors, a pipeline of potential victims is crucial to its survival. To assist in attracting "new money", the best promoters are satisfied investors. Accordingly, members of church congregations, social groups, etc., are prime targets since there's an element of trust amongst members and a sizeable population to solicit. As they boast about their returns to other members of the group, new victims are easily enticed to invest and forget their normal cautious skepticism.

Affinity fraud offenders know exactly what they are doing when they fleece their victims. They take advantage of the trust factor that exists between church members, ethnic communities, social organizations, etc. When things start to unravel, members refrain from turning on them because:

- They may feel they can resolve the problem internally
- They possess a desire not to prosecute "one of their own"
- Trust of law enforcement may be lacking
- They refuse to believe someone in their group would take advantage of them

Recent affinity fraud schemes

The SEC's Division of Enforcement displayed a sample of recent affinity fraud cases in an Investor Bulletin found at www.investor.gov. The cases involve all types of groups and organizations such as:

- African-American Churchgoers – a promoter was selling promissory notes bearing interest between 12 – 20%. The money was to be used to invest in numerous small businesses. Investors lost \$11 million.
- Christian Investors – \$6 million was raised from 80 evangelical Christian investors through unregistered security offerings.
- Persian-Jewish Community in Los Angeles – a \$7.5 million Ponzi scheme perpetrated by a member of the community was halted by the SEC. They lured investors by promising pre-IPO shares of well-known companies.
- South Florida Cuban exile community – a Miami-based developer raised more than \$135 million from more than 400 investors from the community in a giant Ponzi scheme. In addition to paying old investors with new money, a portion of the funds raised were squandered by the perpetrator.

Identifying an affinity fraud offender

One of the largest affinity fraud perpetrators to-date is Bernie Madoff. He attracted people through his affiliations and support of Jewish causes, his posh Florida and New York neighborhoods and his status on Wall Street. Investors had every reason to trust him and never felt the need to do any due diligence. Some common traits offenders have in common can include:

- Predatory Behavior – they seek out organizations and groups with pursuable victims to con
- Having strong interpersonal skills – they have charisma and can easily lead others to follow
- Lack of empathy – they rarely feel compassion and exhibit narcissistic behaviors
- Being manipulative – they are skillful in telling people what they want to hear, and stress a strong identity with the group or organization to strengthen trust

Protecting against an affinity fraud

I've seen firsthand how difficult it is to attack affinity fraud. Potential victims succumb to the power of the group and lower their internal awareness, even as signs of trouble emerge. Before you trust your investments with anyone, keep in mind some simple rules of thumb. Don't get caught up in the euphoria created by others in a group or organization you're involved. Investigate any opportunity thoroughly and be wary of anything guaranteeing stellar results with little or no risk. Perform some due diligence on the individual making the investment offer no matter how trustworthy they appear to be. Stay clear of investments that aren't registered, contain vague documentation, can't be put in writing or are being offered to only those on the "inside." If you're asked to keep the investment opportunity confidential, be skeptical. Find out how liquid your investment is, where the money is being invested and how it is going to be reported. Don't settle for answers that include, "we'll let you know once we fully fund the investment." Don't be pressured into making an investment. Rarely will a "once in a lifetime opportunity" pass you by before you can fully research it. Finally, seek the professional advice of someone not affiliated with the group or solicitor to evaluate the opportunity.

It's frightening to think that a white-collar criminal can invade your "circle of trust" and use that position to defraud you. As we've discussed, these perpetrators can strike any affiliation, profit or non-profit. The best defense is a healthy dose of skepticism, some due diligence and the services of a trusted professional.

James Marasco, CPA, CIA, CFE, is a partner at EFP Rotenberg LLP, Certified Public Accountants and Business Consultants.

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