

# State Comptroller's Internal Control Activities

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# The Comptroller's Responsibilities Under the Internal Control Act

Objective is to help public sector managers safeguard public assets and promote accountability in government.

Responsibilities include:

- Providing technical assistance to agencies and Internal Audit Units,
- Conducting audits of internal control systems, and
- Issuing standards for internal control in New York State government.

# Technical Assistance

- State Government Accountability
  - Professional Development & Networking
  - Training and CPE Opportunities
  - Consultation on Audit & Standards Issues
- Local Government & School Accountability
  - School Districts, Counties, Cities, Towns
- Division of Operations
  - State Expenditures, Contracts, Payroll
- Internal Control Office

# Internal Control Audits

Virtually all OSC audits focus on internal control.

- Specific control systems at individual agencies, programs or initiatives,
- Broader statewide issues like privacy protections, grants management, business continuity planning,
- Agency implementation of the Internal Control Act, including annual certifications and the operation of internal audit units.

# Internal Control Acts Audits

## Maturity Model

1. Process of developing a common understanding
2. Ensure everyone comprehends what is needed to get there
3. Compliance with base level requirements
4. More in-depth evaluation

# Internal Control Acts Audits

- 2003 - Audit of Internal Audit unit operations led to creation of the Internal Control Task Force in 2005.
- 2006 - Task Force report established the baseline for common understanding about expectations
- 2008 - Series of audits examining “Quality of Internal Control Certifications”
  - Required activities done
  - Progress on all elements

# 2012 Certification Audits

Focused specifically on the Internal Control Certification process and whether agencies had:

1. Submitted their certifications on time,
2. Properly answered all the questions with the appropriate level of detail, and
3. Maintained documentation that supports the answers given.

# Why did we ask these questions?

Certification is the basic tool that those charged with governance can use to assess agency compliance with the Act.

Answers not only looked deeper into the adequacy of internal control systems, but also provided insight about the Control Environment at the agency and its commitment to making timely, informative and reliable information available for accountability.



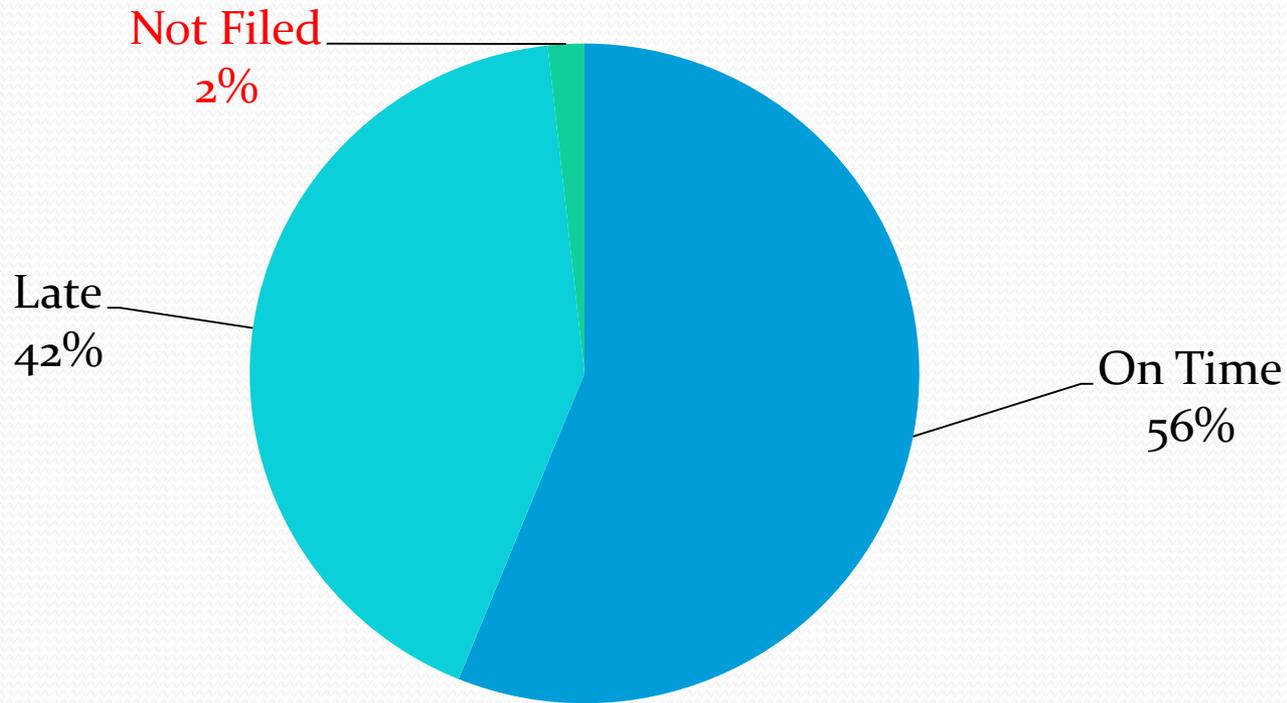
## Audit Methodology

Examined all the Certifications for  
timeliness and completeness

Selected a cross-section of a dozen  
agencies for follow-up and verification

# Audit Results - Timeliness

## Timeliness of 2012 Certifications



## Overall Certification Completeness

Good news was – everyone who filed answered all the questions and rated their compliance in each area.

However, even on a broad first review, several stood out as not providing the level of detail required to explain what they did to comply.

Common example: Several responses were incomplete in the area of training efforts.

## Some Responses.....

- “Staff have online resources available and managers recommend refreshers as situations and agency changes dictate.”
- “Internal Control guidance is ongoing as operations are monitored and evaluated by executive management. A series of guidance documents provided to managers was communicated in last year’s report.”

# Agencies Selected for Audit

- Agriculture & Markets
- Economic Development
- Education
- Department of State
- State Police
- Mental Health
- Medicaid IG
- Welfare IG
- Housing & Community Renewal (NY Homes)
- Office for People with Developmental Disabilities
- Parks, Recreation & Historic Preservation
- Office for Prevention of Domestic Violence

# Completeness

- 7 of the 12 agencies did not provide the required level of detail for all questions.
- Problems were focused across several areas
  - Results of reviews of high-risk areas
  - Review & testing of controls,
  - Monitoring of corrective actions
  - Internal audit planning

# Supporting Documentation

Auditors examined the records that agencies retained to support their answers to the Certification questions.

- Several agencies could not provide records to support at least one of their answers to critical questions.
- A couple had records that contradicted statements made in their Certifications.

# Missing Documentation

- Agencies were unable to show examples of how or when management had communicated to the organization about internal controls.
- Agencies did not retain training records, or were otherwise unable to show what training had been provided to which types of employees (e.g. Line Staff, Managers, Executives) and when.
- Agencies described processes for review and follow up, but did not retain documentation that showed these informal activities really occurred.

# Contradictory Documentation

- One agency claimed to be in full compliance with the requirement for a program of internal control review.
- Documentation showed the ICO:
  - had yet to review many of the unit self assessments,
  - had not conducted any verification, and
  - had taken no steps to determine the status of corrective action plans.

# Contradictory Documentation

- Another agency certified full compliance with the training requirements of the Act.
- Documentation showed it had not provided internal control training to employees since Fiscal 2009-10 – two years before the certification year.

# Contradictory Documentation

- An agency reported a fully compliant system in place to test, track and monitor both risk assessments and corrective actions.
- Documentation showed control tests by unit staff as part of the risk assessment process, but no central testing of those assessments.
- A database existed that listed all audit and review findings, but no evidence of monitoring or follow-up.

# Audit-Related Compliance Issues

- Two agencies had the same person functioning as Internal Control Officer and Internal Audit Director.
- Another had the Internal Audit Director report to the Internal Control Officer, rather than to the head of the agency.
- Three agencies reported that their internal audit units complied with IIA standards despite never having had an external quality assessment.

# 2015-16 Audit Series

## **Internal Control System Components**

Examining how the agencies are addressing each of the five components of internal control.

- How have we moved beyond a focus just on Monitoring and Risk Assessment, or Control Activities?
- How are we considering Information & Communications system?
- How are we evaluating the Control Environment?

# 2015 Audit Results

- Series is still in process, but the results so far have been encouraging.
- Two final reports issued, both positive.
  - Office of Temporary & Disability Assistance
    - Multiple mechanisms to monitor and evaluate controls
    - Adequately addressed all five elements
    - Taken steps to integrate COSO 2013
  - Workers' Compensation Board
    - Recent substantial changes
    - Adequately addressed all elements

# Control Activities

- **Challenges**

- Data driven society
- Immediate expectations
- Streamline operations

- **Audit Questions:** What are we doing to....

- Protect and ensure the integrity of our information systems?
- Implement real-time monitoring?
- Eliminate controls that don't add value?
- Emphasize detection vs prevention?

# Risk Assessment

- **Challenges:**
  - New risks emerging all the time
  - Enterprise Risk Management
- **Audit Questions:** What are we doing to...
  - Evaluate risks at an organization level?
  - Stay abreast of emerging risks?
  - Coordinate & communicate with others?

# Monitoring

- **Challenges**
  - Immediate Feedback
  - Continuous Improvement
  - Data Overload
- **Audit Questions:** What are we doing to...
  - Establish performance measurement systems?
  - Choose and monitor the right data?
  - Benchmark results against others?

# Information & Communication

- **Challenges**
  - Critical for Decision Making
  - External and Internal Sources
  - Emphasis on Accountability & Transparency
- **Audit Questions:** What are we doing to...
  - Make sure the right people have the right info at the right time?
  - Ensure accuracy & completeness?
  - Communicate with our constituents and business partners?

# Control Environment

- **Challenges**
  - Cornerstone of the system
  - Increased awareness & decreased tolerance of ethical lapses
  - Still the most difficult element to evaluate
- **Audit Questions:** What are we doing to...
  - Ask the hard questions?
  - Establish an organizational culture rooted in ethics and integrity?

# Internal Control Standards

- Act passed in 1987 -28 years ago
  - Expanded and Made Permanent in 1999
  - Internal Control Standards 1999 & 2005
  - Internal Control Task Force 2005 & 2006
  - Revised Internal Control Standards in 2007
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- Latest revision now slated for early 2016

# 2016 Standards Revision

- *Internal control is dynamic.*
- *Practices that worked in the past need to be adjusted as circumstances change.*
  - *New requirements and expectations*
    - *COSO 2013*
    - *GAO's new Green Book*
- *How have we changed our approach to meet the challenges of today?*

# Part I: Internal Control Framework

## *New definition of Internal Control*

- *Prior: Internal control 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 objectives and mission.*
- *New: Internal control is a process, effected by an entity's board of directors, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives relating to operations, reporting, and compliance.*

# Old “Four Purposes” of Internal Control

1. Promote orderly, economical, efficient and effective operations, and produce quality products and services consistent with the organization's mission.
2. Safeguard resources against loss due to waste, abuse, mismanagement, errors and fraud.
3. Promote adherence to laws, regulations, contracts and management directives.
4. Develop and maintain reliable financial and management data, and accurately present that data in timely reports.

# New “Three Objectives”

- **Operations Objectives** - Pertaining to effectiveness and efficiency of the entity’s operations, including operational and financial performance goals. These objectives promote orderly, economical operations and help produce quality products and services consistent with the organization's mission. They also serve to safeguard resources against loss due to waste, abuse, mismanagement, errors and fraud.
- **Reporting Objectives** - Relating to internal and external financial and non-financial reporting. These objectives may encompass reliability, timeliness, transparency, or other terms as set forth by regulators, recognized standard setters, or the organization’s policies.
- **Compliance Objectives** - Dealing with adherence to laws, regulations, contracts and management directives to which the entity is subject.

# Other Part I Changes

New discussions about:

- **Why Internal Control is Important**
  - Benefits & Consequences
- **Documenting the Internal Control System**
  - Documentation is required for the effective design, implementation, and operating effectiveness of an entity's internal control system.
  - The level and nature of documentation vary based on the size of the entity and the complexity of its operations.

# Part II: The Five Components

- The five components remain the same.
  - **Control Environment**
  - **Risk Assessment**
  - **Control Activities**
  - **Information & Communication**
  - **Monitoring**
- Incorporates 17 new “Principles” adapted from the new COSO 2013 and the Green Book
  - Fundamental concepts associated with each component

# 17 Principles of Internal Control

## *Control Environment*

- 1. Demonstrates commitment to integrity and ethical values**
- 2. Exercises oversight responsibility**
- 3. Establishes structure, authority and responsibility**
- 4. Demonstrates commitment to competence**
- 5. Enforces accountability**

# 17 Principles of Internal Control

## *Risk Assessment*

6. Specifies suitable objectives
7. Identifies and analyzes risk
8. Addresses fraud risk
9. Manages risk during change

# 17 Principles of Internal Control

## *Control Activities*

- 10. Selects and develops control activities**
- 11. Selects and develops general controls over technology**
- 12. Deploys controls through policies and procedures**

# 17 Principles of Internal Control

## *Information and Communication*

- 13. Uses relevant information**
- 14. Communicates internally**
- 15. Communicates externally**

# 17 Principles of Internal Control

## Monitoring

- 16. Conducts ongoing and/or separate evaluations**
- 17. Evaluates and communicates deficiencies**

# New Part III – Managing and Evaluating the Internal Control System

## New Discussions:

- Responsibility for managing and evaluating the system of internal control
- The importance of internal control and risk management
- Incorporates the Evaluation section, which was previously shown as a Supporting Activity

# Part IV – Supporting Activities

Largely unchanged, except for Evaluation

- Strategic Planning
- Internal Audit

# Closing Thoughts.....

- To be effective, we all need to stay abreast of changing times and advances in our professions.
- As Internal Control Officers and Internal Auditors, the work you do is critical to ensuring that New York State citizens receive the level of public integrity, accountability and ethical behavior that they expect and deserve.
- We look forward to working with all of you to ensure that we can all deliver on that promise.

# Questions & Contacts

- View the audit reports @[www.osc.state.ny.us](http://www.osc.state.ny.us)

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