

INTERNAL CONTROL TESTING

**A Jargon-Free*
Guide**

* Almost

Internal Control

- also known as **management control**, refers to the combination of systems, processes and procedures in place that provide ...
- “*reasonable assurance*” that risks will be minimized, and results maximized (whether this is a far-reaching social program, or a routine administrative task.)

“Reasonable assurance” means just that.

- Any program or administrative task has *inherent risks* – the cost of doing business, and managers must take such risks into consideration in a cost-effective fashion.
- The cost of a management control must be proportionate to the risk.

For Example...

- A **pharmacy** keeps serious narcotics (controlled substances) under lock and key, but stocks the public shelves with antihistamines and aspirin.
- Annual-salaried employees are trusted to keep track of their **time and attendance**, but additional management oversight is required for overtime.
- **Program applicants** submit qualifying information to caseworkers, but such information is subject to independent verification where appropriate.

Internal Control Testing

is generally of two types:

- **Ongoing testing/monitoring** — built into standard procedures, supervisory oversight, employee evaluation and case review;
- **Periodic evaluation** — e.g., on a quarterly or annual basis, often conducted by a consultant or independent body, with emphasis on program results, cost-benefit analysis, and timeliness of services.

Three Techniques



- **Observation** — this is part of good supervision, applicable to factory assembly lines, OCFS residential programs, the classroom, workshop, kitchen, or office environments. It is especially useful when training a new employee to ensure results match expectations, and instructions are clear.
- **Interview** — asking questions — of staff, customers, clients, vendors, or peer professionals is often the only way to get to the bottom of a situation in a non-adversarial way.
- **Documentation** — this includes a review of items such as elevator inspection certificates, fire extinguisher recharging tags, time sheets, vouchers, program applications, day care center inspection reports, or even computer access logs.



Two Sides of the Coin:



- **What are we trying to achieve?**
(Goals & Objectives)
- **What are we trying to avoid?**
(Risks & Vulnerabilities)

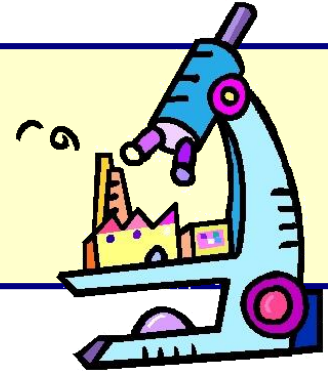
If a risk does not interfere with results, why spend money and time trying to control it?

Plain Talk About Testing



- **You** are the expert
- Internal Control will review your Survey
- Internal Control will review testing efforts on a selective basis...
- based on state and nationally recognized standards...
- e.g., Control Self-Assessment

Observation



- If you've observed something happen more than once, you develop expectations.
- Staffing is based on significance, volume and complexity of activities
- Is reality in sync with your work plan?

Interviewing



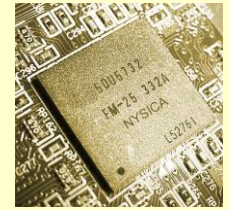
- Interviewing starts with hiring
- The interviewing technique reinforces training
- Interviewing continues to be used as a management technique.
- Managers filter information received, compare it to on the job observations then check the documentation

Documentation



- Documentation is more than a necessary evil
- Properly maintained records can control quality, quantity and timeliness of work
- Some types of documentation are required by law or procedure.
- The modern office is in transition to a paperless environment

Digital Information



- has many added benefits.
- You can “filter” a lengthy report, looking for certain occurrences (e.g., dollar amounts over \$50, weekend use of cell phones or EZ-Passes),
- or sort data in various ways to structure specialized reports without re-keying of data.

Sampling



- **Sampling** is a common technique for reviewing documentation.
- Check 10% of a new employee's output on a weekly basis (quality & quantity control)
- Do a 5% sample of a senior staffer on a monthly basis (for workload trends)
- Computers can sample 100% of digital records – looking for exceptions

Your Goal



- Efficient and effective programs
- Identifiable and quantifiable results
- Recognize risks and trends
- Meet new challenges
- Reduce errors
- Avert fraud, waste and mismanagement
- Ethics and integrity are built-in, not added-on