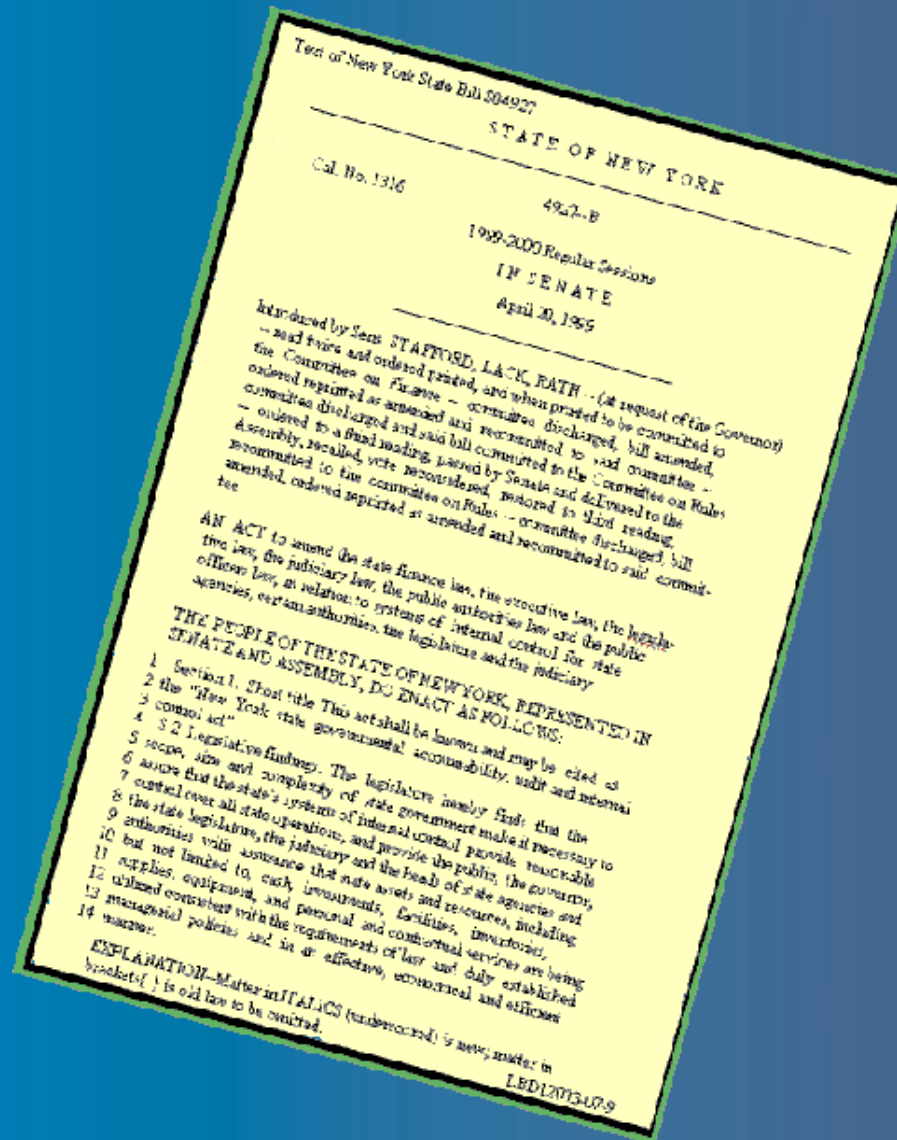




INTERNAL CONTROL ACT

New York State Law





INTERNAL CONTROL ACT

Accountability is its Middle Name

- Full Name:
Governmental Accountability,
Audit and Internal Control Act
- First enacted in **1987**, with periodic sunset provisions
- Now a **permanent** requirement
- **DOB** and **OSC** closely involved
- Every agency, authority and commission affected



INTERNAL CONTROL ACT

Six Major Requirements

1. Establish and maintain **guidelines** for a system of internal control.
2. Implement **education and training** efforts for employee awareness and understanding of internal control techniques.
3. Provide each employee with a **clear and concise statement** of the agency's management policies and standards.
4. Designate an **internal control officer** to implement and review the agency's internal control effort.
5. Periodically evaluate the need for an **internal audit** function.
6. Establish and maintain a system of **internal control review** to identify weaknesses and identify corrective actions.



INTERNAL CONTROL ACT

Annual Certification

- Each agency must submit an annual report with compliance certification by **April 1** to Division of the Budget.
- Accountability requires accurate monitoring and control of the agency's
 - **people**
 - staff and clients
 - **revenues & expenditures**
 - payroll, petty cash, contracts, purchases, care & maintenance
 - **assets**
 - vehicles, equipment, buildings, computers
 - **information**
 - sensitive client data, accounting/ budgeting information, personnel files



INTERNAL CONTROL ACT

Internal Control Review

- **Follows principles of COSO Control Self-Assessment**
- **Annual self-reporting of deficiencies, with corrective action plans**
- **Internal Control Officer oversees process, monitors compliance trends and problems**
- **Internal Control Officer updates self-assessment instrument annually**
- **Internal Control Officer verifies corrective actions are taken**



INTERNAL CONTROL ACT

Who Does What

- Shared responsibility of program monitors, finance office and auditors
- Management survey assesses risk/vulnerability
- Waste, fraud and mismanagement are the enemy of sound programs
- Information system to oversee NYC funded activities



INTERNAL CONTROL ACT

Internal Control Reviews

- **What is a Function?**
- An agency-specific activity of major program significance; **or**
- A centralized activity governing agency-wide operations
 - e.g. Personnel, Payroll, Finance,
 - Purchasing, Inventory, Safety
- Deputy Commissioners determine level of detail and frequency of review cycle



INTERNAL CONTROL ACT

Is It A Function?

YES

- ✓ Significant Program
- ✓ Significant Staff Resources
- ✓ Recurring, Structured Process
- ✓ Agency-wide Scope
- ✓ Major Funding Stream/Budget Impact
- ✓ Concrete goals - measurable & quantifiable
- ✓ Major enabling statute, legislation or court stipulation

NO

- ⊘ Minor Activity
- ⊘ Minimal Staff Resources
- ⊘ Ad Hoc Projects, Infrequent Activity
- ⊘ Bureau Function Duplicates Agency-wide function
- ⊘ Minor Fiscal Impact
- ⊘ Vague, non-quantifiable goals
- ⊘ One-of-a-kind, experimental project,
- ⊘ Short-term funding, part-time involvement



INTERNAL CONTROL ACT

Control Objective

- A written statement related to the function/program which sets specific performance standards to **maximize results** while directing protection of resources to **minimize risks**.



INTERNAL CONTROL ACT

Risk Assessment:

Two Sides of the Same Coin

Identify & Achieve Goals

Identify and Avoid Risks

Risks Interfere with Results

INTERNAL RISKS:

**Staff turnover, Inadequate Supervision,
Cutting Corners, Limited Training
Unreasonable Deadlines or Mandates**

EXTERNAL RISKS:

**Client Fraud, Faulty Documentation
Provider Fraud or Mismanagement
Flawed Legislation
Health & Safety Dangers**





INTERNAL CONTROL ACT

Internal Control Procedures

- Who or what gave you the **authority** to conduct this function?
 - What **activities** or transactions need to occur to meet the function's objectives?
 - Is there a mandated **timetable** for completing key elements of this activity?
 - What system of **checks and balances** is employed to prevent fraud or abuse?
 - What **documentation** is maintained for each transaction, and who maintains these records?
 - How do you **test your system** periodically?
- State law, executive order, agency policy, administrative directive
 - RFP's, contracts, claims processing, monthly subsidies, expenditure review, account reconciliation
 - quarterly billing, monthly reconciliation, annual report, prompt payment legislation
 - separations of duties, prior approval for travel/purchasing, outside review
 - shift logs, ledgers, computer entries, monthly reports, statements



INTERNAL CONTROL ACT

Internal Control Testing

- Frequent or Periodic
- Good Supervisory Practice
- Test the People and the Data
- Determine Acceptable Quality Level (Baseline)
- Establish QC Checkpoints
- Sample individual and group transactions
- Interview, Observe, Document
- Identify strengths and weaknesses





INTERNAL CONTROL ACT

Sample Survey Form

1 Function Code:

From Listing

2 Function:

Brief Title

3 Function Description:

Use Action Verbs

4 Bureau / Office:

Division, Bureau; City – if applicable

5 Current Supervisor:

Name and Title

***What's
included***





INTERNAL CONTROL ACT

Sample Survey Form (continued)

6 Goals & Objectives:

To be Achieved re Agency Mission,
Major Program or Enabling Statutes,
Expected Outcomes

7 Risks:

Risks to be Avoided
Worst-Case Scenario
Greatest Potential Liability
Danger to clients
Risk to assets or funding

8 Staff Resources Devoted:

Number of Professional /
Clerical Staff or FTEs





INTERNAL CONTROL ACT

Sample Survey Form - Testing

9 Testing Employed:

- Frequency & Type of Tests
- Weekly Computer Exception Reports
- Monthly Account Reconciliation
- Quarterly Billing Cycle Review
- Sample Transactions
- Interview or Observe Staff

10 Results of Testing:

- Acceptable Error Rate
- Timeliness of Transactions
- Last Test Date





INTERNAL CONTROL ACT

Survey Form - Deficiencies

11 Deficiencies Identified:

- Increased Error Rates
- Out-of-Date Policies & Procedures
- Computer System Breaches
- Missed Deadlines
- Increased Litigation
- Safety Concerns
- Inaccurate Data
- Fraud or Lost Assets

**** Prepare
Action
Plan***

12 Submitted By:

- Name
- Title
- Date





INTERNAL CONTROL ACT

Action Plan

Bureau:

- Division, Bureau, City – if applicable

Function:

- Function Code &
- Brief Title

*(as shown
on
Survey
form)*

Deficiencies Identified:

- Excessive Error Rates
- Computer System Security Gaps
- Inadequate Information Flow
- Separation of Duties or
- Conflict of Interest





INTERNAL CONTROL ACT

Action Plan (continued)

Impact:

- Potential Liability
- Effect on Youth
- Lost Assets
- Adverse Publicity
- Inadequate Oversight

What Action Will Be Taken?

- Revise Policy or Procedures
- Training
- Technical Assistance
- Physical Plant
- Legislation

Who Will Do It?

- Name
- Title

When Will This Be Done?

- Schedule with Benchmarks or Deadline
- Specific date





INTERNAL CONTROL ACT

Action Plan (continued)

Additional Resources Needed

- Technical Assistance
- Computer Support
- Temporary Staff
- Enabling Legislation



Prepared By:

- Name
- Title
- Date

Approved By:

- Name
- Title
- Date

*Follow
Up in
3-6
months*



INTERNAL CONTROL ACT

Follow Up / Progress Report

Plan Results:

- ☒ Problem Resolved
- ☒ Additional Action Required
- ☒ Situation no Longer Applicable

*Internal
Control
Officer will
establish
deadline for
follow-up*

Comments:

- Describe additional action if necessary
- Or other problems uncovered

Submitted By:

- Name
- Title
- Date

