

# **Internal Control Program**

## **New York Department of Agriculture and Markets**

*Internal Controls help safeguard funds, provide efficient & effective management of assets, & permit accurate financial accounting.*

### **Background**

For over twenty years, New York State law has required state agencies and public authorities to maintain a system of internal control to help safeguard public assets and promote accountability in government.

In 1987, the Legislature passed the New York State Governmental Accountability, Audit and Internal Control Act (Act) requiring each State agency to institute a comprehensive system of internal controls over its operations. The Division of the Budget's (DOB's) Budget Policy and Reporting Manual Bulletin B-350 requires the head of each covered agency to certify compliance with the Act by April 30 of each year by submitting a Certification and Internal Control Summary describing the internal control activities undertaken during the previous year.

### **Introduction**

Internal controls are 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 mission. While the overall purpose of internal control is to help an organization achieve its mission, internal control also helps an organization to promote orderly, efficient and effective operations, and produce quality services consistent with the organization's mission; safeguard resources against loss due to abuse, mismanagement, errors and fraud; promote adherence to laws, regulations, contracts and management directives; and develop and maintain valid and timely financial and management data.

Internal controls are much more than a set of procedures we put in place to safeguard assets. Rather, they are the cumulative sum of all the things we do as public servants to identify, monitor and manage risk in our organizations. This comprehensive view of internal controls is critical to ensuring that New York State citizens receive the level of public integrity, accountability and ethical behavior that they expect and deserve.

## Reasonable Assurance

All internal control systems must provide *reasonable* assurance that the mission of the Department will be met in a cost effective manner. Reasonable assurance provides sufficient confidence that internal controls are functioning to ensure the organization will meet its mission, vision, goals, and program objectives.

### Internal Controls help accomplish the following:

- Effective and successful implementation and operation of programs and initiatives.
- Assuring that programs strictly adhere to relevant laws and regulations.
- Safeguarding resources.
- Addressing potential risks and preventing negative consequences that would result from program or operational failures.

### Examples of Internal Controls:

- External (federal, state) laws, regulations, policies, and procedures
- Public Officers Law
  - <http://public.leginfo.state.ny.us/menugetf.cgi?COMMONQUERY=LAWS>
- NY State Joint Commission on Public Ethics – Interim Guidance on Gifts
  - [http://www.jcope.ny.gov/training/Interim%20Guidance%20on%20Gifts%20w%20Addendum%2011\\_29\\_12.pdf](http://www.jcope.ny.gov/training/Interim%20Guidance%20on%20Gifts%20w%20Addendum%2011_29_12.pdf)
- Employee Handbook
- Effective Communication Systems
- Financial Management Policies & Procedures
  - Authorizing payments
  - Verifying transactions
  - Separation of duties
- Human Resources Policies & Procedures
  - Time and Attendance reporting
  - Employee supervision, performance programs and evaluations
  - Bargaining Contracts
- Financial and operational audits
- Inventory Control Systems
- Safety and Security Systems (Environmental and Employee)
- Electronic data and network security
- State Fair Advisory Board
  - <http://www.nysfair.org/advisory-board/>

## **Principles of Internal Control Program (ICP)**

Department of Agriculture and Markets' ICP is based upon existing internal controls which are part of our everyday operations. The Department ICP provides us with a formal mechanism to help identify existing controls and evaluate their effectiveness.

- Promote orderly, economical, efficient and effective operations, and produce quality services consistent with the organization's mission.
- Maintaining internal control systems which provide the necessary documentation, checks and balances, and quality assurance activities, too ensure the effectiveness of operations and integrity of funds, information, and security.
- Managers and supervisors, with assistance from the Internal Control Officer, are primarily responsible for establishing and reviewing internal controls. However, all employees are expected to be aware of internal controls.
- Safeguard resources against loss due to waste, abuse, mismanagement, errors and fraud.
- Promote adherence to laws, regulations, contracts and management directives.
- Develop and maintain reliable financial and management data, and accurately present that data in timely reports.

## **Internal Control Program Steps/Guidelines**

The Department ICP establishes processes for the identification of risks, areas needing improvement, corresponding corrective action plans and status reporting of those corrective action plans.

The Department will regularly communicate the importance of internal controls to employees and encourage employee participation in the identification of internal controls weaknesses and development of corrective actions.

The Department Internal Control Officer (ICO) will establish a process for internal control reviews and other internal control activities.

Each Division Director will take an active role in internal control activities for their areas and functions of responsibility

Each Division Director will conduct at least an annual risk self assessments of their departments' significant functions. Internal control activities will be based on the annual risk self assessment of

each Division, including the identification of inherent risks and needed internal controls for each function.

### **Responsibilities**

Every Department employee plays a part in internal controls. Managers, along with non-managerial staff, are expected to have personal and professional integrity, to demonstrate job competence and to perform their work efficiently. State employees are expected to adhere to all State laws, rules and regulations, as well as agency specific policies and procedures.

In addition to the responsibilities that all Department staff have in common, different levels of the organization play different roles in the system of internal controls. Executive management sets the tone at the top, while mid-level managers are responsible for implementing and maintaining internal controls for the portion of operations they oversee. Staff performing day-to-day operations is responsible for completing control activities and reporting back the results. Lastly, the Internal Control Officer (ICO) is responsible for coordinating and monitoring the system of internal controls.

### **Requirements**

The New York State Internal Control Act requires that all state agencies establish and maintain a system of internal controls and a program of internal control review. The program of internal control review is designed to identify internal control weaknesses, identify actions that are needed to correct those weaknesses, monitor the implementation of necessary corrective actions and periodically assess the adequacy of the agency's ongoing internal control system.

### **Department's Internal Control Review Process**

The task in evaluating the Department's system of internal controls is to identify all programs (and responsible staff) necessary for the agency to carry out its mission. Division Directors then use the following four (4) steps to complete an internal control review of the Division.

- **Identification of functions:** Division Directors identify the primary operating responsibilities and functions of each Division.
- **Risk assessments:** Division Directors complete a risk assessment for each primary function identified within the Division. This is a quick, preliminary judgment about the adequacy of existing internal control techniques to minimize or detect vulnerabilities.
- **Testing of Internal Controls:** Controls over the most vulnerable (risky) functions are tested to detect potential weaknesses. Testing of Internal controls can take a variety of forms such as:
  - Observing whether staff perform the function;
  - Discussing with staff how the function is performed and whether those steps are reasonable;
  - Examining documents and procedures followed by staff to determine whether they are adequate and complete; and
  - Evaluating and testing actual work products to confirm procedures are being followed and

results are consistent with planned program outcomes.

**Corrective Action Plans:** A plan of corrective action should assign responsibility, establish time frames for implementing improvements, and report on progress toward these improvements. Management may want to seek assistance from the Department's Internal Control Officer or Internal Auditor to monitor adherence to the plan and/or to offer recommendations on appropriate corrective actions. Some corrective actions may be implemented immediately. However, more time may be needed for those actions which require organizational changes, redeployment of resources, or a fundamental rethinking of the function's objectives.