



STATE OF NEW YORK
EXECUTIVE DEPARTMENT
DIVISION OF THE BUDGET
STATE CAPITOL
ALBANY, NEW YORK 12224

David A. Paterson
Governor

Robert L. Megna
Director of the Budget

BUDGET BULLETIN	B-1188	February 22, 2010
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TO: ALL DEPARTMENT AND AGENCY HEADS

FROM: Robert L. Megna *Robert L. Megna*

SUBJECT: 2009-10 Internal Control Summary and Certification and Submission of Internal Audit Plans

Budget Policy and Reporting Manual (BPRM) Item B-350 requires the head of each covered State agency and public authority to certify compliance with the State's Internal Control Act (the Act) and to submit an annual Internal Control Summary of the internal control activities undertaken during the preceding fiscal year. For 2009-10, in addition to their certification, agencies that have an internal audit function are also asked to submit a copy of their internal and contract audit plans and related information.

Consistent with last year's certification process, the updated Internal Control Summary and Certification Form (attached below) provides flexibility and allows agencies to certify to corresponding levels of compliance with each of the Act's requirements. This allows agencies to:

- Provide supporting justification for full or partial compliance levels;
- Identify areas of partial compliance or noncompliance which need to be addressed; and,
- Include specific time frames for achieving compliance.

Therefore, by April 30, 2010, please follow the steps listed below:

Internal Control Summary and Certification: To report on your agency's or authority's compliance with the Act:

1. Complete the Internal Control Summary and Certification Form by checking the appropriate compliance level for each of the Act's requirements and:
 - a. Provide specific justification to support this assertion.
 - b. If necessary, identify steps needed and related time frames to address areas of partial compliance or noncompliance.
2. Sign and date the Certification page at the end of the form.
3. Submit the completed and signed Internal Control Summary and Certification Form via e-mail as an attached PDF file to the Division of the Budget's internal control reporting mailbox at dob.sm.icreporting@budget.state.ny.us.

Internal Audit Plans: As follow-up to the Office of Taxpayer Accountability request last year for internal audit information, this year's certification has been amended to request additional details with respect to your agency's internal and contract audit plans (if applicable). Please refer to the last section of the certification for specific guidance on this request.

Additional guidelines and information regarding internal control certification and reporting can be found at:

- Budget Policy and Reporting Manual (B-350)
www.budget.state.ny.us/guide/bprm/b/b350.html
- Standards of Internal Control in New York State Government
www.osc.state.ny.us/agencies/ictf/docs/intcontrol_stds.pdf
- Internal Control Task Force 2006 Report
www.osc.state.ny.us/agencies/ictf/docs/implement_guide_20060907.pdf
- The New York State Internal Control Association
www.nysica.com

Questions regarding the Act or these certification requirements should be directed to Tom Lukacs at (518) 402-4158 or Jeanette Whitbeck at (518) 486-6643.

Attachment

2009-10 INTERNAL CONTROL SUMMARY & CERTIFICATION FORM

The Internal Control Summary and Certification Form provides supporting justification for an agency's or authority's level of compliance with the requirements of the Internal Control Act as outlined below.

This form requests information regarding specific actions taken, or needed to be taken, by agencies/authorities to comply with each of the Act's requirements as described in Budget Policy and Reporting Manual (BPRM) Item B-350.

A completed and signed Internal Control Summary and Certification Form should be submitted by **April 30, 2010**, via e-mail as an attached PDF file to the Division of the Budget's internal control reporting mailbox at dob.sm.icreporting@budget.state.ny.us.

Agency Name	Date	Completed by (Name)	Phone
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A. Establish and maintain guidelines for a system of internal controls for the agency or authority. Internal control guidelines communicate an organization's management and programmatic objectives to its employees and provide the methods and procedures used to assess the effectiveness of its internal controls in supporting those objectives. Internal control guidelines should:

1. State the agency head's support of internal controls to provide staff with an understanding of the benefits of effective controls;
2. Identify the agency's primary responsibilities and the objectives;
3. Explain how internal controls are organized and managed;
4. Define responsibilities of agency management and supervisors and agency staff;
5. Acknowledge that internal controls adhere to accepted standards; and,
6. Describe the organization's process for evaluating internal controls.

For this requirement, the agency/authority is:

Fully Compliant Partially Compliant Not Compliant

Provide a thorough explanation of the specific actions your agency has taken, or are needed, to comply with this requirement.

B. Establish and maintain a system of internal controls and a program of internal control review for the agency or authority. The system of internal control should be developed using the COSO (Committee of Sponsoring Organizations of the Treadway Commission) conceptual framework adopted in the *Standards for Internal Controls in New York State Government*, and should incorporate COSO's five basic components of internal control: control environment, risk assessment, control activities, information and communication and monitoring.

The program of internal control review shall be a structured, continuing and well documented system designed to identify internal control weaknesses, identify actions that are needed to correct these weaknesses, monitor the implementation of necessary corrective actions and periodically assess the adequacy of the agency's or authority's internal controls.

Organizations can adopt a system of internal control review tailored to their needs, size and degree of centralization. The procedures for evaluating the adequacy of that system also vary, but at a minimum should:

1. Identify and clearly document the primary operating responsibilities (functions) of the agency or authority;
2. Define the objectives of these functions so they are easily understood by staff accountable for carrying out the functions;
3. Identify/document the policies and procedures used to execute functions;
4. Identify the major functions of each of the agency's assessable units;
5. Develop a process or cycle to assess risk and test controls for major functions;
6. Assess the risks and consequences associated with controls failing to promote the objectives of major functions;
7. Test controls to ensure they are working as intended (see the "Manager's Testing Guide" which can be downloaded from BPRM Item B-350);
8. Institute a centrally monitored process to document, monitor and report deficiencies and corrective actions.

For this requirement, the agency/authority is:

Fully Compliant **Partially Compliant** **Not Compliant**

Provide a thorough explanation of the specific actions your agency has taken, or are needed, to comply with this requirement and specifically address the following points:

1. Describe the process used to review the agency's/authority's internal controls.
2. List all high-risk activities and indicate which were reviewed during 2009-10.
3. Identify the significant deficiencies revealed during the 2009-10 review process. Outline the actions taken, or planned, to eliminate deficiencies, highlighting the most important improvements made during the year.

4. Describe the monitoring system installed by the agency to verify that corrective actions are taken. Discuss the extent to which IT systems are used to track corrective actions.
5. Summarize specific actions the agency has taken to install a compliance testing program. Describe actions taken during 2009-10 to verify test results and expand the testing program.
6. Describe measures instituted to sustain the effectiveness of the internal control program during 2009-10. Include information on reorganizations and other revisions in the program to enhance operations.
7. Describe efforts agency/authority management has taken to coordinate and integrate the documentation and reporting of activities the Office of the State Comptroller's *Standards for Internal Controls in New York State Government* recognize as supporting a good internal control system: evaluation, strategic planning and internal audit.
8. Describe efforts agency/authority management has taken to effectively communicate information within the organization. Information should be communicated to management and other employees who need it in a form and within a time frame that helps them to carry out their responsibilities. Communication is not an isolated internal control component. It affects every aspect of an organization's operations and helps support its system of internal control. The feedback from this communication network can help management evaluate how well the various components of the system of internal control are working.

C. Make available to each officer and employee of the agency or authority a clear and concise statement of the generally applicable management policies and standards with which the officer or employee of such agency or authority shall be expected to comply along with detailed policies and procedures the employees are expected to adhere to in completing their work. The statement should set the tone at the top. It should be issued periodically and emphasize the importance of effective internal controls to the agency or authority and the responsibility of each officer and employee for effective internal controls.

Managerial policies and procedures for the performance of specific functions are articulated in administrative manuals, employee handbooks, job descriptions and applicable policy and procedure manuals. While it is not necessary for all employees to possess all manuals, employees should be provided with, or have access to, applicable policies and procedures for their position.

For this requirement, the agency/authority is:

Fully Compliant Partially Compliant Not Compliant

Provide a thorough explanation of the specific actions your agency has taken, or are needed, to comply with this requirement.

D. Designate an Internal Control Officer (ICO), who shall report to the head of the agency or authority or to their designee within the executive office, to implement and review the internal control responsibilities established pursuant to this Item. The designation of the ICO should be communicated to all employees.

The ICO works with appropriate personnel within the agency or authority to coordinate the internal control activities and to help ensure that the internal control program meets the requirements established by BPRM Item B-350. Although the ICO evaluates the adequacy of the internal control reviews performed by agency or authority staff, program and line managers are primarily responsible for conducting reviews to assure adherence to controls and analyzing and improving control systems. The ICO should be an individual with sufficient authority to act on behalf of the agency head in implementing and reviewing the agency's internal control program. This individual should have a broad knowledge of agency operations, personnel and policy objectives.

For this requirement, the agency/authority is:

Fully Compliant **Partially Compliant** **Not Compliant**

Provide a thorough explanation of the specific actions your agency has taken, or are needed, to comply with this requirement.

E. Implement education and training efforts to ensure that officers and employees have achieved adequate awareness and understanding of internal control standards and, as appropriate, evaluation techniques.

Agencies and authorities should identify staff requiring internal control training and the depth and content of that training. Such education and training should be on-going with specific courses directed at line staff, middle managers and executive management. For organizations that have established internal audit functions, training and education should be offered on the appropriate role of the internal auditor within the organization's internal control system.

For this requirement, the agency/authority is:

Fully Compliant **Partially Compliant** **Not Compliant**

Provide a thorough explanation of the specific actions your agency has taken, or are needed, to comply with this requirement.

- F. Periodically evaluate the need for an internal audit (IA) function. If an IA function exists, it should be maintained in compliance with generally accepted professional auditing standards. Agencies on the Division of the Budget's list of agencies required to establish IA functions – and those choosing to have an IA function – are required to comply with The Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing* (see BPRM Item B-350 Section III "IA Responsibilities").**

As outlined in BPRM Item B-350, agencies and authorities are required to periodically evaluate the need to establish, maintain or modify an IA function utilizing the *Internal Audit Evaluation Criteria* (Attachment C).

Agencies concluding that an IA function is warranted should submit their evaluation to DOB as outlined in BPRM Item B-350. Periodically thereafter, agencies with IA functions should review current operations to determine whether the function should be altered or maintained.

Agencies concluding an IA function is not warranted should periodically reevaluate the need for such a function using Attachment C, especially when organizational, operating, fiscal, program, legal or personnel changes occur which affect the agency's exposure to risk or which could otherwise change the results of the initial assessment.

Pursuant to BPRM Item B-350, agencies required to have – and those entities choosing to have – an internal audit unit should comply with The Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing*. Therefore, IA units should comply with the guidance outlined below regarding organizational placement, independence and reporting.

1. Directors of Internal Audit (DIA) should report functionally to the agency head or audit committee and may report administratively to the designated executive deputy (or equivalent position). If the executive deputy has line or staff duties, the DIA should report directly to the agency head.
2. A current organizational chart should be available that identifies the placement of the IA unit, the individual that has responsibility for overseeing the internal audit activity and other organizations/activities under its purview.
3. The IA function should be independent of the ICO, but should work closely with the ICO. Limitations should be established on IC activities where those duties overlap. Agencies should identify impairments to the independence of the DIA that may be created where the DIA is performing the ICO function. Furthermore, IA units should not assume operating responsibilities, perform management functions, make management decisions or assume other monitoring roles (e.g., Information Security Officer).
4. Internal audit staff should complete an annual independence statement identifying actual/potential impairments to independence and notifying the DIA whenever a new actual/potential impairment arises.

5. At a minimum, DIAs should hold quarterly meetings with agency executive management and the audit committee, where applicable, to report on audit results. Final reports should be distributed to the agency head, executive deputy, auditee, ICO and the audit committee.
6. The DIA should assure that agency audit staff have the skills, knowledge and ability to perform the audit work required and that the size of the audit staff is appropriate given the size and complexity of the organization.
7. IA units should take steps to ensure sufficient audit resources are available given the size and complexity of the organization. This can be accomplished by exploring in-sourcing, outsourcing and sharing audit services.

For this requirement, the agency/authority is:

- Not Applicable – This agency/authority does not have an IA function.**
- Fully Compliant** **Partially Compliant** **Not Compliant**

Provide a thorough explanation of the specific actions your agency has taken, or are needed, to comply with this requirement by providing the following information:

1. A current organizational chart identifying the placement of the IA unit, the name and title of the IA director, other organizations/activities under the IA function's purview and the name and title of the person to whom the IA director reports.
2. A description of how the internal audit director's credentials, education and experience meets the minimum qualifications established in BPRM Item B-350.
3. A description of how continuing professional education requirements are met by the director and each staff member.
4. A description of how quality assurance review requirements are being met.
5. A description of how the IA function ensures that it does not compromise its independence if it is also responsible for other functions (i.e., internal control, information security or other duties).
6. A copy of your 2009-10 and 2010-11 internal and contract audit plans. (Please note: Dennis Whalen's memo of April 1, 2009 called on internal audit units to include the impact of Federal American Recovery and Reinvestment Act (ARRA) funding in their risk assessment and audit planning. If your agency is receiving ARRA funds, please be sure that your 2010-11 internal audit plan addresses this issue.)

7. Documentation pertaining to the risk-assessment utilized in formulating the 2010-11 audit plans.
8. An indication of which audits in the audit plan for FY 2009-10 were not conducted, and an explanation as to why they were not conducted.
9. An estimate of the cost savings to be achieved by virtue of implementing the recommendations contained in each conducted audit described in the FY 2009-10 audit plans and any audits that were conducted during that time period that were not in the audit plan. If it is not feasible to provide a cost estimate for savings, please identify process improvements, risk mitigation, fraud prevention or cost avoidance measures that result from implementation of such recommendations.
10. Identify the recommendations contained in the audits described in the FY 2009-10 audit plans that were not implemented, if any, and provide a full explanation why they were not implemented.
11. Identify the recommendations contained in final audits issued by the Office of State Comptroller between July 1, 2008 and March 31, 2010 that were not implemented, if any, and provide a full explanation why they were not implemented.

The Governor's Office of Taxpayer Accountability (OTA) and the Division of the Budget (DOB) will be conducting a review of these State agency and authority internal and contract audit plans and audit recommendations to assess (i) whether the audit plans are based on a documented risk assessment which captures areas for review that have the greatest risk exposure, (ii) the percentage of audits identified in each audit plan that were conducted, (iii) whether recommendations contained in audits were implemented, and any reasons for non-implementation, and (iv) cost savings and other benefits attributable to the audits. In addition, the OTA and DOB will assess whether recommendations contained in audits conducted by the Office of the State Comptroller were implemented, and any reasons for non-implementation.

2009-10 INTERNAL CONTROL CERTIFICATION

Agency/Authority Name

Agency Head/Chairperson Governing Board

Agency/Authority Address

Telephone Number

Name of Internal Control Officer

Telephone Number

Email Address of Internal Control Officer

I hereby certify the agency or authority is:

- Fully Compliant (Full compliance with all provisions)**
- Partially Compliant (Partial compliance with some or all provisions)**
- Not Compliant (Noncompliance with all provisions)**

With the New York State Governmental Accountability, Audit and Internal Control Act.

This certification is supported with detailed justification of actions taken and/or outlines specific actions needed to address areas of partial compliance or noncompliance as described in the preceding Internal Control Summary.

Signature/Agency Head or Chairperson of Governing Board

Date