NEW YORK STATE OF OPPORTUNITY. | Division of the Budget

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BUDGET BULLETIN	B-1219	April 22, 2016

TO: **ALL DEPARTMENT AND AGENCY HEADS**

FROM: **Robert F. Mujica Jr.**

Subject: **2015-16 Internal Control Summary and Certification**

Budget Policy and Reporting Manual (BPRM) Item B-350 requires the head of each covered State agency to certify compliance with the State's Internal Control Act (the Act) and each year report on the internal control activities undertaken by the agency during the preceding fiscal year. This bulletin establishes the due date and format for the 2015-16 certification.

Internal Control Summary and Certification

The Internal Control Summary and Certification Form (attached) provides agencies with the flexibility to certify to corresponding levels of compliance with each of the Act's requirements by identifying areas of full, partial or noncompliance. Agencies should provide supporting justification for their responses, including specific time frames for achieving compliance.

Internal Control Summary and Certification Forms are due to the Division of the Budget (DOB) on or before **Monday, May 2, 2016**.

To report on your agency'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:

    a. Provide specific justification to support this assertion; and,

    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; and,

3. Submit the completed and signed Internal Control Summary and Certification Form via e-mail as an attached PDF file to DOB's internal control reporting mailbox at dob.sm.icreporting@budget.ny.gov by **Monday, May 2, 2016**.

Guidelines

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

1. Budget Policy and Reporting Manual (B-350) www.budget.ny.gov/guide/bprm/b/b350.html.

2. Standards for Internal Controls in New York State Government, Office of the State Comptroller (http://osc.state.ny.us/agencies/ictf/docs/intcontrol_stds.pdf).

3. International Standards for the Professional Practice of Internal Auditing, The Institute of Internal Auditors (http://www.theiia.org/guidance/standards-and-guidance/ippf/standards/).

4. New York State Internal Control Association (NYSICA). NYSICA provides internal control and internal audit information, best practices, sample documents and forms, and free training and staff development to member State agencies and public authorities (http://www.nysica.com/).

5. The New York State Internal Control Act Implementation Guide: Strengthening Compliance With the Act and Standards provides agencies with guidance for complying with the Act and offers sample forms and templates that can be used to implement the provisions of the Act.

Questions regarding the Act or these certification requirements should be directed to DOB's internal controls mailbox (dob.sm.icreporting@budget.ny.gov).

Attachment

2015-16 INTERNAL CONTROL SUMMARY & CERTIFICATION FORM

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

This form requests information regarding specific actions taken, or needed to be taken, by agencies 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 to the Division of the Budget (DOB) on or before **Monday, May 2, 2016**, via e-mail as an attached PDF file to DOB's internal control reporting mailbox at dob.sm.icreporting@budget.ny.gov.

Agency Name	Date	Completed by (Name)	Phone

A. **Establish and maintain guidelines for a system of internal controls for the agency.** 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 objectives;
3. Explain how internal controls are organized and managed;
4. Define responsibilities of agency management, supervisors and 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 is:

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

Provide a thorough explanation of the specific actions your agency has taken, or which 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.** 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 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.

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. Include a process and cycle used to assess risk and review controls for major functions. *(Describe the process used to review the agency's internal controls and list all high-risk activities and indicate which were reviewed during 2015-16.)*

6. Assess the risks and consequences associated with controls failing to promote the objectives of major functions. *(Identify the significant deficiencies revealed during the 2015-16 review process. Outline the actions taken, or planned, to eliminate those deficiencies, highlighting the most important improvements made during the year.)*

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). *(Summarize specific actions the agency has taken to install a compliance testing program. Describe actions taken during 2015-16 to verify test results and expand the testing program.)*

8. Institute a centrally monitored process to document, monitor and report deficiencies and corrective actions. *(Describe the monitoring system installed to verify that corrective actions are taken. Discuss the extent to which IT systems are used to track actions.)*

For this requirement, the agency is:

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

In addition to providing a thorough explanation of the specific actions your agency has taken, or which are needed, to comply with this requirement, please describe briefly your agency's process for reviewing and testing controls and monitoring corrective actions. Also list all high-risk activities which were reviewed during the past year, and the results of those reviews.

- Add Additional Pages if Needed -

C. **Make available to each officer and employee of the agency a clear and concise statement of the generally applicable management policies and standards with which the officer or employee of such agency 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 an appropriate tone at the top, reflecting agency management's expectations. It should be issued periodically and emphasize the importance of effective internal controls to the agency 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 is:

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

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

D. **Designate an Internal Control Officer (ICO), who shall report to the head of the agency 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 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, program and line managers are primarily responsible for conducting reviews to assure adherence to controls and for 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 the agency's operations, personnel and policy objectives.

For this requirement, the agency is:

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

Provide a thorough explanation of the specific actions your agency has taken, or which 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 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 is:

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

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

F. **Periodically evaluate the need to establish, maintain or modify an internal audit (IA) function. If an IA function exists, it should operate in accordance with generally accepted professional standards for internal auditing.** Agencies on DOB'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 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, the IA function 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 function, the individual that has responsibility for overseeing the internal audit activity and other organizations/activities under the purview of the DIA.

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 functions should not assume operating responsibilities, perform management functions, make management decisions or assume other monitoring roles (e.g., Information Security Officer).

4. IA 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. The IA function should develop an annual risk-based audit plan, track the extent to which audit plans are achieved and monitor implementation of audit recommendations.

6. At a minimum, DIAs should hold quarterly meetings with agency executive management and the audit committee, where applicable, to report on audit activities and results. Final reports should be distributed to the agency head, executive deputy, auditee, ICO and the audit committee.

7. The DIA should assure that agency audit staff have the skills, knowledge and ability to perform the audit work required, and should take steps to assure that the size of the audit staff is appropriate given the size and complexity of the organization.

8. The IA function should take appropriate steps to assure 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.

Agencies should specifically provide the following information when presenting their explanation:

1. A current organizational chart identifying the placement of the IA function, 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 meet 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 the 2016-17 internal audit plan.

7. Documentation pertaining to the risk-assessment utilized in formulating the 2016-17 audit plan.

8. An indication of which audits in the audit plan for FY 2015-16 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 2015-16 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 resulted from implementation of such recommendations.

10. Identify the recommendations contained in the audits described in the FY 2015-16 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 April 1, 2015 and March 31, 2016 that were not implemented, if any, and provide a full explanation why they were not implemented.

For this requirement, the agency is:

☐ **Not Applicable – This agency 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 which are needed, to comply with this requirement.

2015-16 INTERNAL CONTROL CERTIFICATION

_____
Agency Name

_____
Agency Head

_____
Agency Address Telephone Number

_____
Name of Internal Control Officer Telephone Number

_____
Email Address of Internal Control Officer

I hereby certify the agency 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 Date