

SUNY New Paltz Internal Control Program

Presented by:

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and

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Objectives

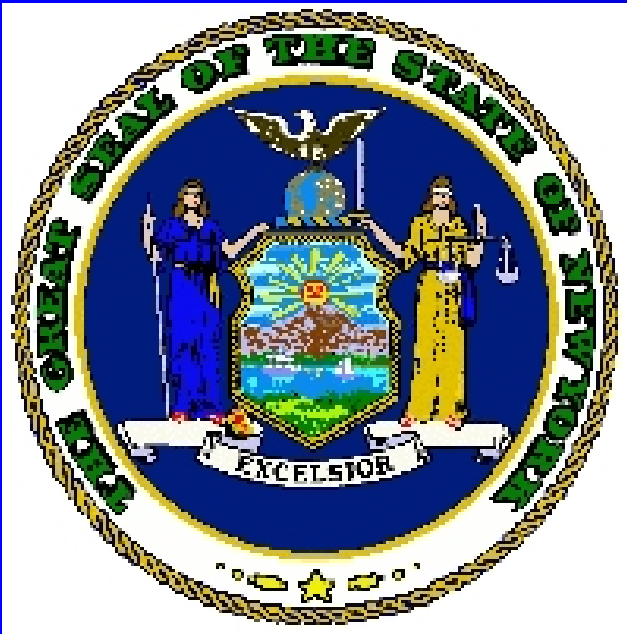
- Internal Controls – What are they, why we need them, and how we use them
- Overview of New York State's Internal Control Program

New York State Government



- **11th Largest employer in the nation – public or private**
- **Nearly 190,000 Employees**

New York State Government



- 57 Executive Branch agencies
- 86 Commissions
- 56 Boards
- 98 Committees
- 63 Councils
- 130 independent authorities and quasi-public corporations

New York State Budget



\$94.4

BILLION

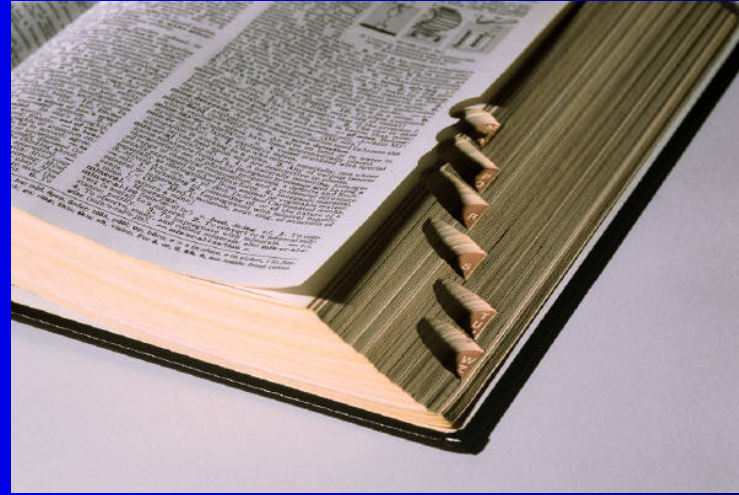
2003-2004 Enacted Budget

INTERNAL CONTROLS...

What are they?????



INTERNAL CONTROL: The Recognized Definition



Internal control or an internal control system is 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 objectives and mission.

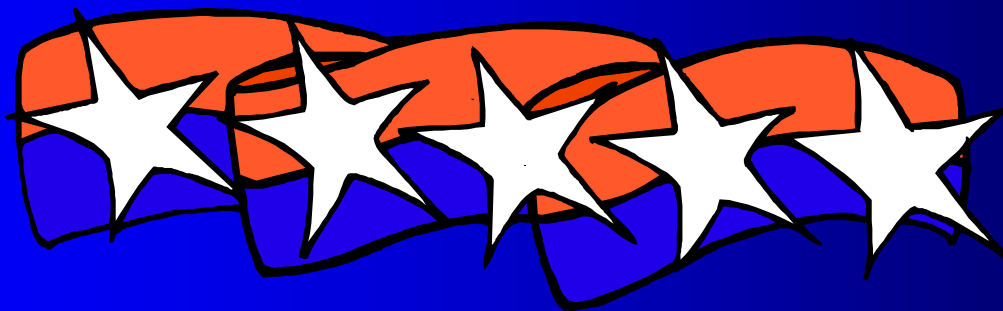
Simple Definition



- Internal control is what we do to see that the things we want to happen *will* happen ...
- And the things we don't want to happen *won't* happen.

Internal Controls Are...

- ✓ Basic and ordinary management practices, not only over fiscal operations but also over program activities.



Internal Controls Are *Common Sense*



What do you worry about going wrong?

What steps have been taken to assure it doesn't?



How do you know things are under control?

Importance of Internal Control

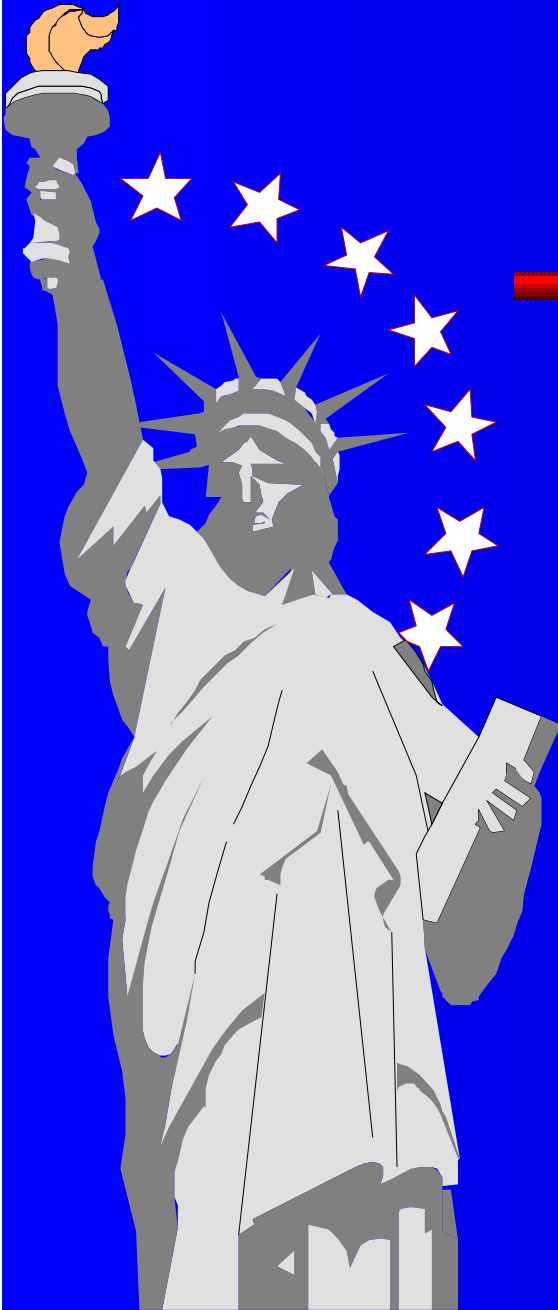
- Effectively manage operations
- Provide reasonable assurance programs will meet established goals & objectives
- Decrease the risks (obstacles)
- In accordance with the NYS Government Accountability, Audit & Internal Control Act of 1987

New York State's Internal Control Act



- ✓ Establish and Maintain guidelines for a system of internal controls
- ✓ Establish and Maintain an IC system and internal control review process
- ✓ Make a clear and concise statement of managerial policies and standards available to all employees

New York State's Internal Control Act



- ✓ Designate an Internal Control Officer
- ✓ Provide Internal Control education and training
- ✓ Periodically evaluate the need for an internal audit function

Reporting Requirements

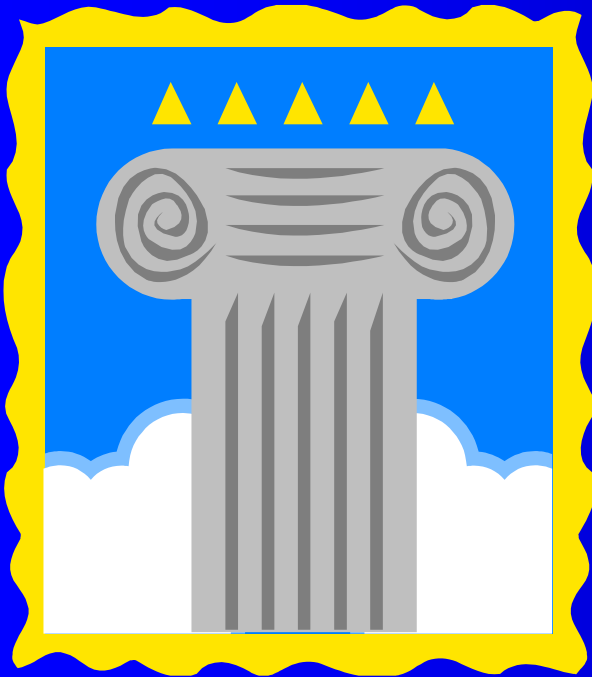
Covered State Agencies/Authorities submit by March 31 annually (BPRM Item B-350):

- An Annual IC Certification, and
- A summary Internal Control Report



Internal Control Program

Components of Internal Control:



- ✓ **Control Environment**
- ✓ **Risk Assessment**
- ✓ **Control Activities**
- ✓ **Information & Communication**
- ✓ **Monitoring and Feedback**



Who Is Responsible For Internal Control?



- ✓ Senior management assures appropriate controls are in place for all operations.



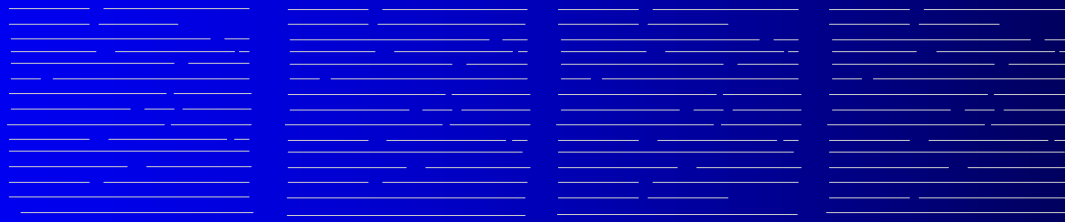
- ✓ Every employee follows controls and reports problems or improvements



Internal Control in the News

EXTRA!!! The Times EXTRA!!!

Weak controls make an
organization
susceptible to failure



Why Is Internal Control Important?

D

OMPLIANCE with applicable laws/policies

A

CCOMPLISHMENT of the entity's mission

R

ELEVANT and reliable data

E

CONOMICAL and efficient use of resources

P

AFEGUARD assets

Internal Controls Are:



THE SAFEGUARDS AND MANAGEMENT OVERSIGHT DESIGNED TO:

- Prevent, detect, and correct program and operational breakdowns
- Ensure that goals are met

Safeguards/Management Oversight

Preventing program/operational breakdowns:

Examples:

- Written guidelines for data access
- Consistent criteria for review or approval
- Controlled access/inventory controls
- Written and communicated policy and procedures



Safeguards/Management Oversight

Detecting program/operation breakdowns:

Examples:

- Risk Assessments
- Reviewing, testing,
and monitoring controls
- Audits
- Complaints



Reasonable Assurance

Internal controls are to provide a reasonable assurance that the objectives of the system will be accomplished.



The cost of internal control should not exceed the benefit derived.

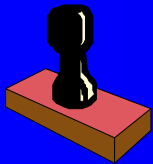
Types of Control and Examples



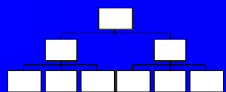
DOCUMENTATION - Policies and procedures



RECORDS - Recording transactions & events



AUTHORIZATION - Approving transactions



STRUCTURE - Separation of duties



SUPERVISION - Monitoring control objectives



SECURITY - Safeguarding resources

Internal Control Process

1. Identify Functions
2. Assess Risk/Vulnerability
3. Conduct Internal Control Reviews
4. Take Corrective Action

Risk Categories



- **Business Interruption** – system breakdowns or a catastrophe.
- **Erroneous Management Decision** – bad judgment or could be based on erroneous, inadequate or misleading information
- **Fraud, Embezzlement and Theft** – management fraud, employee theft, and customer and outside theft.

Risk Categories



- **Statutory Sanctions** – penalties arising from failure to comply with regulatory requirements, as well as overt violations
- **Excessive Costs/Deficient Revenues** – expenses which could have been avoided, as well as loss of revenues to which the organization is entitled
- **Loss, Misuse or Destruction of Assets** – unintentional loss of physical assets such as cash, inventory and equipment

Internal Control Review

Checks Whether Controls Work by:

✓ Evaluating If Controls Are Adequate

&

✓ Testing Whether Procedures Are Followed

What Is Compliance Testing?

It's Like Placing
Your Procedures
Under A Microscope





“If You Can’t Measure It, You Can’t Manage It!”

Determine what is an acceptable performance level ...
if 99.9% is good enough, then...

- ✓ **12 babies will be given to the wrong parents each day**
- ✓ **18,322 pieces of mail will be mishandled in the next hour**
- ✓ **22,000 checks deducted from wrong account in 1 hour**
- ✓ **2 million documents will be lost by the IRS next year**

Internal Control Testing

Makes sure controls “on paper” are:



- Actually being used as designed
- Really meet the control objectives

Internal Control Testing

In some cases, a simple test may prevent unwanted situations from occurring:

Test

Prevents



Test drive a car

Buying a lemon



Physical exam

Serious health problems



Smoke detector

Failure to work during fire

Select Test Methods

Three methods for testing controls to determine if they are working :



1. DOCUMENT ANALYSIS – Review records, forms, or other documents



2. OBSERVATION – Watch the control being performed in practice



3. INTERVIEW – Elicit information from those performing that control

Analyze Test Results To:



Determine specific causes of variances



Identify departmental or divisional trends



Assess actual or potential impacts

Take Corrective Action

When weaknesses are found, decide to:



Institute new controls



Improve existing controls, or



Accept the risk

Areas with Weak Controls

Weak controls may not show up immediately but certain signs point to this deficiency:



- Inability to meet upper management's deadlines for supplying information
- Incorrect or unclear information
- Unusually high employee turnover
- Crowded, poorly organized files, requiring extra effort to locate material
- Poor employee morale

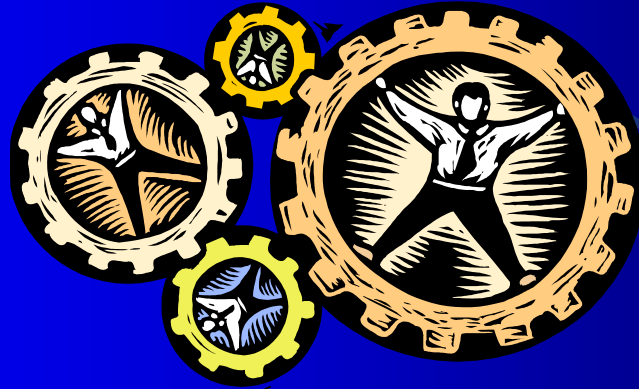
An Effective Control Environment

Is a product of...

- Management's philosophy, style and supportive attitude
- Competence
- Ethical values
- Integrity
- Morale of the organization's people
- Organizational structure
- Accountability relationships



Management's Responsibility



- ✓ The manager is accountable for system adequacy
- ✓ This is an inherent responsibility, not an overlay
- ✓ Additional resources do not automatically flow
- ✓ In its broadest terms, every employee plays a part

Lessons Learned

- **Maintain visible leadership**
- **Make it “that’s how we do business around here”**
- **Keep the process as simple as possible**
- **Monitor follow through as closely as the planning**



Statewide Agency Compliance

- Annual Certifications
- IC Program Depth & Breadth
- Don't Reinvent the Wheel!
- Share Best Practices



Examples of Ethical Values and Integrity

- **Commitment to honesty and fairness**
- **Recognition and adherence to laws and policies**
 - **Respect for SUNY New Paltz**
 - **Commitment to Excellence**
 - **Respect for Authority**
 - **Respect for Employee Rights**
 - **Conformance to Professional Standards**

Summary

- We should recognize that Internal Controls are inherent in our day to day activities
- All Employees Have responsibility for Internal Controls
- It's Not Rocket Science
- It's Not Just a Good Idea – It's the Law!

Internal Control Training

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THANK YOU!!!