

**NEW YORK STATE**NYS Department of State  eLearning Designer Mode

## Internal Control Training

### Welcome

#### Instructions

This training course consists of four modules (chapters) and includes two short quizzes. You must successfully complete both quizzes; a passing score is 80%.

If you are unable to complete the course in one session you may log off and log back on, but the application will not "bookmark" the last page you visited. For this reason, we recommend you complete the course in one session.

To move to the next page, click the NEXT arrow at either the bottom or upper right of the page. To return to a previously viewed page, click the PRIOR arrow. You can also move to the beginning of any module by selecting the name from the module list on the left. When you are finished with the course, click Log-off.

#### Course Objectives

The NYS Internal Control Act requires that all NYS employees receive internal control training. This course will provide you with a basic understanding of internal controls, and demonstrate how you can help improve internal controls.

#### Did you know?

Several million fewer dependents were claimed on federal income tax returns the year the IRS began requiring taxpayers to list the social security numbers of their children. (Requiring a social security number is an example of an internal control that is working.)

## Introduction

In 1987, the Legislature passed *The New York State Governmental Accountability, Audit and Internal Control Act*. The Act helps to ensure state funds are spent appropriately and that state agencies, including DOS, function efficiently to meet objectives.

The Division of Budget (Budget Policy and Reporting Manual Item B-350) requires the head of each agency to certify compliance with the Internal Control Act and submit an annual Internal Control Summary of the internal control activities undertaken during the preceding fiscal year.

This requirement includes the Secretary of State's certification that the Department of State is in compliance with the Internal Control Act.

## Overview

### Purpose of Internal Controls

Internal controls help an organization achieve its mission and....

- promote orderly, economical, efficient and effective operations and produce quality products and services consistent with the organization's mission
- safeguard resources against loss due to waste, abuse, mismanagement, errors and fraud
- ensure adherence to laws, regulations, contracts and management directives
- develop and maintain reliable financial and management data, and accurately present that data in timely reports

### Everyday Controls

You use controls everyday without even realizing it. Here are some examples....



locking your door (preventative) to keep trespassers out



car speedometer (detective) to avoid speeding



global positioning system (directive) to avoid getting lost

## Internal Controls at Work

Internal controls help us at work by....

- ensuring our operations work well in order to accomplish our goals
- reducing errors
- protecting employees from possible unwarranted allegations

## Organizational Roles

### Employee Responsibility

Who is responsible for internal controls at DOS?



## You! (and everyone else)

You are in the best position to identify risks and offer possible solutions to minimize what could go wrong with the work you perform every day. If you recognize an internal control weakness, you should discuss it with your supervisor. Internal controls are really just good common sense.

## Program Manager

The greatest responsibility for internal control is with program managers. Managers make sure staff are supervised, monitored, and trained, to reasonably assure program goals are met.

## Executive

Executive sets the tone for a strong internal control environment and is ultimately responsible for its operation. The NYS Internal Control Act assigns responsibility for agency internal control systems on agency heads; at the Department of State, this is the Secretary of State.

## Internal Control Officer

In New York State agencies, Internal Control Officers (ICO) are responsible for the administration of internal controls. The ICO coordinates internal control activities and helps ensure the internal control program meets the requirements established by law.

DOS's Internal Control Officer is the Director of Administration and Management.

## Office of Internal Audit

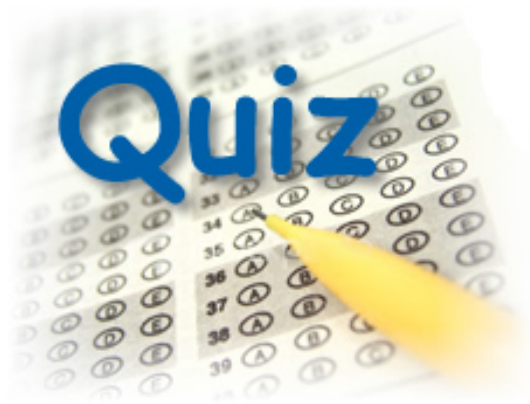
The Office of Internal Audit is responsible for evaluating the effectiveness of the agency's internal controls. To do this, Internal Audit must be independent of the internal control system. The same individual cannot simultaneously fulfill the responsibilities of Internal Control Officer and Director of Internal Audit, although both have a similar goal of helping program managers improve agency internal controls.

## Quiz Directions

You must successfully complete this short quiz. When you are finished selecting your answers, click Submit at the bottom of the page. You will be provided with brief explanations that support the correct answers, and receive your grade. If you do not receive a passing grade (at least 80%), you will have to retake this quiz.

## Quiz 1

1. **Who is responsible for internal controls at DOS?**
  - A. Program managers
  - B. The Secretary of State
  - C. Every DOS employee
2. **Are internal controls required by law?**
  - A. No
  - B. Yes
3. **Who is more likely to first identify an internal control weakness?**
  - A. Executive Office
  - B. Office of Internal Audit
  - C. Employees who perform the work
4. **Do working internal controls help protect you (the employee)?**
  - A. Yes
  - B. No
5. **What should you do if you become aware of an internal control weakness?**
  - A. Ignore it, certainly someone else is already aware of the weakness.
  - B. Talk to your supervisor



## Components

### The Five Components of Internal Control



There are five components of an internal control system. These components, while they may function differently, are the same in all organizations, large and small, public or private. You cannot have an adequate internal control system without all five components present and working as intended.

## Control Environment

It all starts here. A positive attitude and support from management is the foundation of good internal controls. The key to a strong control environment is management....

- setting a good tone from the top
- providing guidance for acceptable behavior
- removing temptations and providing necessary discipline
- identifying skills and knowledge needed to meet goals and offer guidance and training

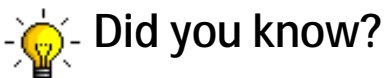
## Risk Assessment

Risks threaten the accomplishment of the Agency's objectives. Risk assessment is the process of identifying, evaluating and determining how to manage these risks.



Assessing risk is thinking about....

- what could go wrong
- how likely it is to happen
- what is the impact





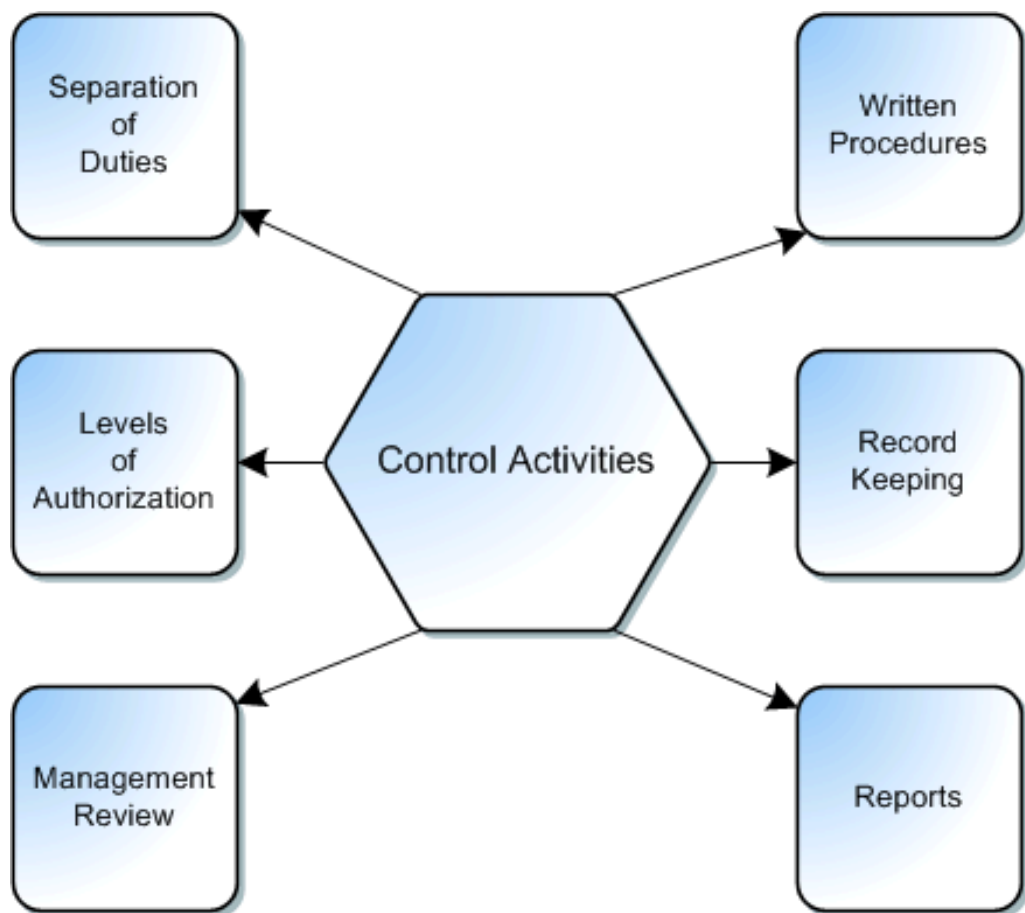
A NYS employee embezzled \$1.2 million. The employee had sole approval of vouchers and set up a shell company to receive and deposit checks. (Separation of duties is an important internal control; employee assignments should act as a check on the work of others.)

## Control Activities

Control activities are tools that help avoid or reduce the risks that can prevent the accomplishment of objectives. Management must establish sufficient control activities.

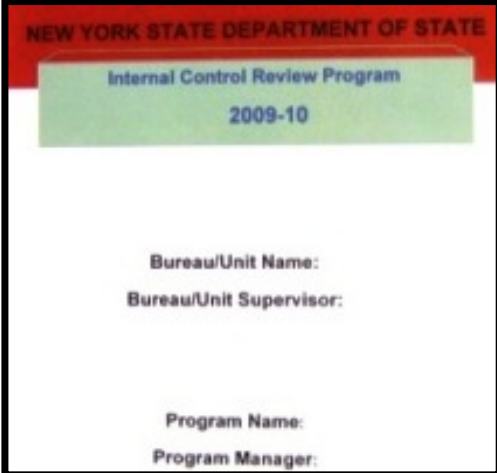
### Control activities include....

- separation of staff duties
- written procedures, including job descriptions, duties and responsibilities
- established levels of authorization
- accurate record keeping
- procedures for periodic management review and testing to ensure compliance
- activity reports and performance reports



## Monitoring

Ongoing evaluations of internal controls through DOS's Internal Control Review process determine if existing controls are working as intended.



NEW YORK STATE DEPARTMENT OF STATE

Internal Control Review Program  
2009-10

Bureau/Unit Name:  
Bureau/Unit Supervisor:

Program Name:  
Program Manager:



The Office of Internal Audit monitors internal controls through the audit process.

DOS's internal controls are also monitored externally. The Office of the State Comptroller reviews our internal control system. The New York State Inspector General, CPA firms, and the federal government may also review our internal controls.




## Information and Communication

Communication plays a very significant role in internal control systems.

Information needs to be communicated up, down, and across the chain of command. Tone from the top is important here. Management needs to set the direction, but management also needs to be receptive to information and ideas reported from staff. Peers need to know important information that could affect their work. An organization with strong communication will more readily identify internal control weaknesses so they can be corrected.



 **Did you know?**

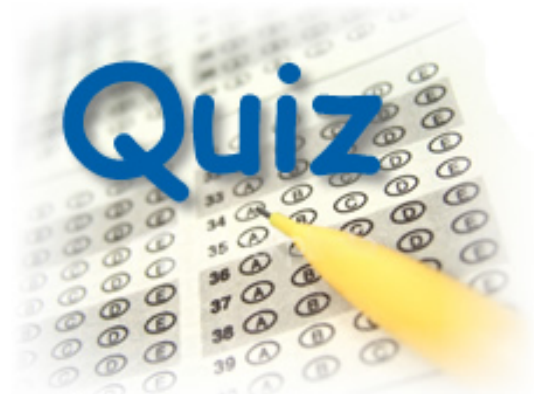
**An engineer questioned how O-rings might react to the bitter cold of space. This question was ignored and a tragedy resulted when the Space Shuttle Challenger failed. (Poor communication leads to many internal control failures.)**

## Quiz Directions

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## Final Quiz

1. **Carl is responsible for ordering all agency cell phones. He also signs the receiving report, distributes the phones to employees and maintains the inventory listing. Do you think there are adequate internal controls?**
  - A. Yes
  - B. No



2. **Maria has supervised the same unit for over 20 years. She is hard working, conscientious, and extremely knowledgeable. Although nothing is in writing, Maria and her staff are aware of and follow all procedures. Do you think there are adequate internal controls?**
  - A. Yes
  - B. No
3. **Christina developed a much needed computer software application critical to daily operations of her program area. Christina maintains and supports the program, as she is the only one with the expertise and familiarity of the computer application. Do you think there are adequate internal controls?**
  - A. Yes
  - B. No
4. **Richard records all revenue transactions and pertinent customer information in an electronic spreadsheet stored on the local (C:) drive of his computer. The original documentation is not retained. Do you think there are adequate internal controls?**
  - A. Yes
  - B. No
5. **Camile and Margaret have access to blank licenses, and the agency commissioner's signature plate, which authenticates documents. They are responsible for printing and recording issued licenses. They are not required to record the quantity of blank licenses used. Do you think there are adequate internal controls?**
  - A. Yes
  - B. No

## Conclusion

Congratulations on successfully completing Internal Control training! We hope you have a better understanding of the importance of good internal controls.

Training developed by:

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