NYS INTERNAL CONTROL REVIEW PROGRAMS

WHAT YOU NEED TO KNOW ABOUT COSO 2013

NYSICA

New York State Internal Control Association

GUIDANCE UPDATES

DOB BPRM ITEM B-350

Effective January 4, 2018, the New York State Division of the Budget's Budget Policy & Reporting Manual Item B-350 states the system of internal control should be developed using the 2013 COSO framework incorporated in the Office of the State Comptroller's *Standards for Internal Control in New York State Government.*

OSC STANDARDS

Per the March 2016 revision of the Office of the State Comptroller's *Standards for Internal Control in New York State Government:* COSO presented an update to its Internal Control – Integrated Framework. This latest revision incorporates COSO's recommended changes to the Framework in order to enhance the fundamental concepts and enable New York State government organizations to effectively and efficiently develop and maintain their internal control systems.

WHAT DOES THIS MEAN TO MY AGENCY

NYSICA received an overwhelming number of questions from members asking how to implement the COSO 2013 Framework at their agency.

INTERNAL CONTROL WORKGROUP

WORKGROUP SERIES

NYSICA reached out to all Internal Control Officers of member agencies, asking for volunteers that 1) had implemented COSO 2013 at their agency and/or 2) earned the COSO Internal Control Certificate.

We received 14 volunteers!

The workgroup met for a series of five meetings to create guidance for all agency Internal Control Officers.

THANK YOU TO ALL WORKGROUP PARTICIPANTS

Jack Amodeo

Paul Bellinger

Mallory Cail

Linda Donahue

Laurel Jolliffe

Robin E. LaPlante

Thomas Lukacs

Janet L. Oberstein

Mary Peck

Joanne Pinheiro

Gretchen Robinson

Brian Shoemaker

Michael Shollar

Thomas VerGow

WORKGROUP RESULTS

1. Internal Control Review Component and Principle Evaluation Guide

2. Component and Principle Evaluation Template

INTERNAL CONTROL REVIEW COMPONENT AND PRINCIPLE EVALUATION GUIDE

Designed to provide guidance on how to adapt and apply COSO 2013 Framework to your government agency structure.

The term 'agency' can be substituted throughout the guide (and today's presentation) with public authority, university, board, commission, council, etc. as it applies to your specific government entity.

COMPONENT AND PRINCIPLE EVALUATION TEMPLATE

Adapted from this year's Item B-350 Attachment E, to provide an example of how to document the determination of the effectiveness of internal control.

Management may use, revise, or tailor the Component and Principle Evaluation Template as they deem fit, or they may develop a different means of documentation. The template is not required.

DISCLAIMER

Following the guide will help you review and evaluate your agency's internal control system, but it cannot guarantee an unqualified audit opinion will be achieved. Some language has been changed and examples have been added to aid you in applying the components, principles, and points of focus to state government operations. These examples are for illustrative purposes to guide you in interpreting a component, principle, or point of focus. They are not intended to be an all-inclusive list.

NYSICA has published these documents for you on the Library tab of our website: www.nysica.com

COSO 2013 FRAMEWORK

WHAT DO YOU NEED TO KNOW?

Control Environment	Risk Assessment	Control Activities	Information & Communication	Monitoring Activities
1.1. Demonstrates commitment to integrity and ethical values	•6. Specifies suitable objectives	•10. Selects and develops control activities	•13. Uses relevant information	•16. Conducts ongoing and/or separate evaluations
•2. Exercises oversight responsibility	•7. Identifies and analyzes risk	•11. Selects and develops general controls over technology	•14. Communicates internally	•17. Evaluates and communicates deficiencies
•3. Establishes structure, authority and responsibility	•8. Assesses fraud risk	•12. Deploys controls through policies and procedures	•15. Communicates externally	
•4. Demonstrates commitment to competence	•9. Manages risk during change			
•5. Enforces accountability				

EFFECTIVE SYSTEM OF INTERNAL CONTROL

SUITABLE AND RELEVANT

The COSO 2013 Framework views all 5 components and 17 principles of internal control as suitable and relevant to all entities.

If management determines a principle is NOT suitable or relevant, management must support its determination with the rationale of how, in the absence of that principle, the associated component can be present and functioning.

PRINCIPLES TRANSLATED TO AGENCIES

The guide translates the principles into government operations.

The most significant translation is Principle 2:

The **Board of Directors** demonstrates independence from **management** and exercises oversight of the development and performance of internal control.

PRINCIPLES TRANSLATED TO AGENCIES

The guide translates the principles into government operations.

<u>The most significant translation is Principle 2:</u>

The ~~Board of Directors~~ demonstrates independence from ~~management~~ and exercises oversight of the development and performance of internal control.

PRINCIPLES TRANSLATED TO AGENCIES

The guide translates the principles into government operations.

The most significant translation is Principle 2:

The **Agency Commissioner** demonstrates independence from **agency leadership** and exercises oversight of the development and performance of internal control.

ROLES AND RESPONSIBILITIES

EVERYONE HAS A ROLE IN EFFECTING THE SYSTEM OF INTERNAL CONTROL

- Board of Directors
- Agency Leadership
- Directors and Managers
- Supervisors
- Staff
- Internal Control Officer
- Internal Audit

BOARD OF DIRECTORS*

*This role becomes the agency's top executive (commissioner) if the agency does not have a Board of Directors.

1. Should discuss with agency leadership the state of the agency's system of internal control and provide oversight as needed.

2. Needs to establish its policies and expectations of how members should provide oversight of the agency's internal control system.

3. Should be apprised of risks to the achievement of the agency's objectives, the assessments of internal control deficiencies, and how management assesses the effectiveness of internal controls.

4. Should challenge agency leadership; ask questions, as necessary; and seek input and support from internal control officer, internal auditors, external auditors, and others.

AGENCY LEADERSHIP

1. Should create a positive control environment that supports strong governance, ethical values, integrity, competence, morale, and structure throughout the agency.

2. Should set the agency's expectation for internal controls, ensuring management is aware of those expectations, and evaluating management's effectiveness at maintaining and supporting the system of internal controls.

3. Should focus their monitoring activities on the major divisions of the agency and place emphasis on monitoring the achievements of the agency's goals.

DIRECTORS AND MANAGERS

1. Should ensure employees have the necessary skills, knowledge, and training to reasonably ensure they can carry out their work.

2. Should develop internal controls for compliance with agency policies and procedures as well as applicable laws, rules, and regulations.

3. Should periodically review their processes and procedures to ensure that proper internal controls are in place and being followed.

4. Need to introduce new controls and strengthen internal controls when weaknesses or opportunities for improvement are identified.

5. Should focus monitoring activities on assessible units with emphasis on achieving the agency's goals.

SUPERVISORS

1. Should ensure internal controls are operating as intended for compliance with agency policies and procedures as well as applicable laws, rules, and regulations.

2. Need to implement new internal controls or strengthen existing controls when weaknesses or opportunities for improvement are identified.

3. Should monitor activities and transactions in their unit to ensure that staff members are performing their assigned responsibilities, control activities are functioning properly, the unit is accomplishing its goals, the unit's control environment is appropriate, communication is open and sufficient, and risks and opportunities are identified and properly addressed.

STAFF

1. Should have an understanding of internal controls and control concepts supporting the system of internal controls within their unit.

2. Should comply with agency policies and procedures as well as applicable laws, rules, and regulations.

3. Should be focused on monitoring their own work to ensure it is done properly.

4. Should correct errors identified before work is referred to higher levels for review.

INTERNAL CONTROL OFFICER

1. Responsible for establishing and maintaining an internal control review program to ensure internal controls are in place and for promoting compliance with agency policies; procedures; and applicable laws, rules, and regulations.

2. Responsible for educating and training agency staff on internal controls and control concepts.

INTERNAL AUDIT

1. Responsible for assessing the adequacy and effectiveness of agency internal controls and reporting weaknesses and opportunities for improvement to management as they are identified.

EFFECTIVE SYSTEM OF INTERNAL CONTROL

(Continued)

PRESENT

The determination that each component and principle <u>exists in the design and implementation</u> of the system of internal control to achieve specified objectives.
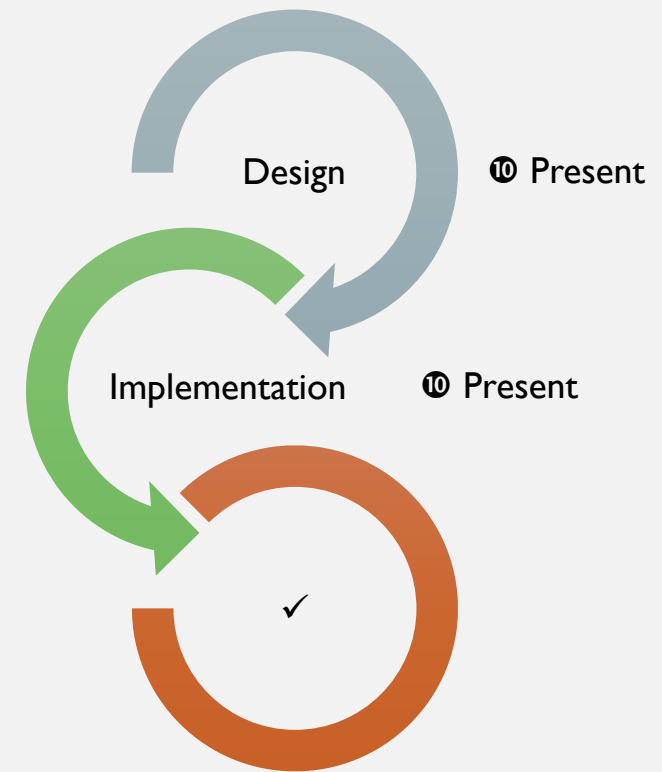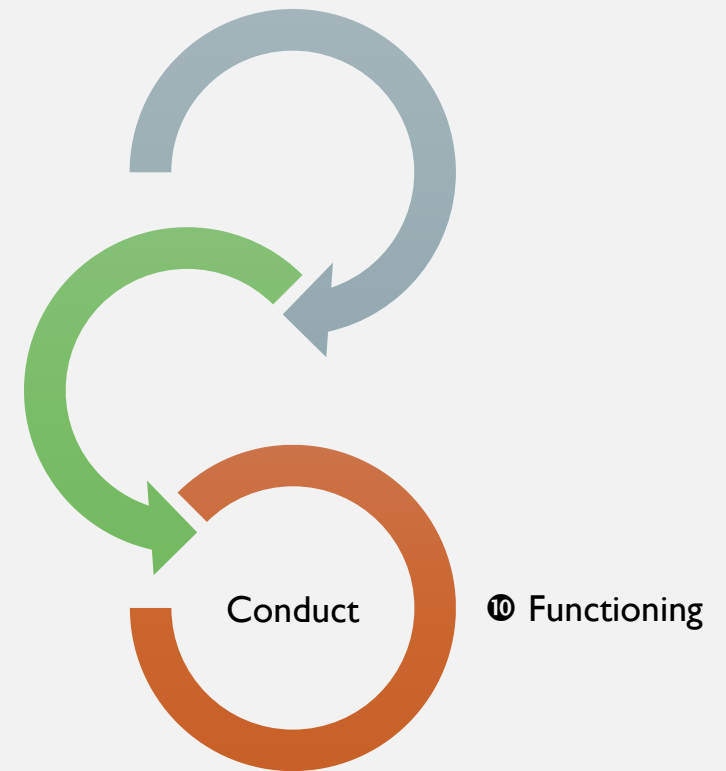
Persuasive evidence must exist that proves controls are selected and developed to effect the components and related principles.

When evaluating the design of an internal control, management determines if controls individually, and in combination with other controls, are capable of achieving an objective and addressing related risks.

FUNCTIONING

The determination that each component and principle continues to exist in the conduct of the system of internal control to achieve specified objectives.
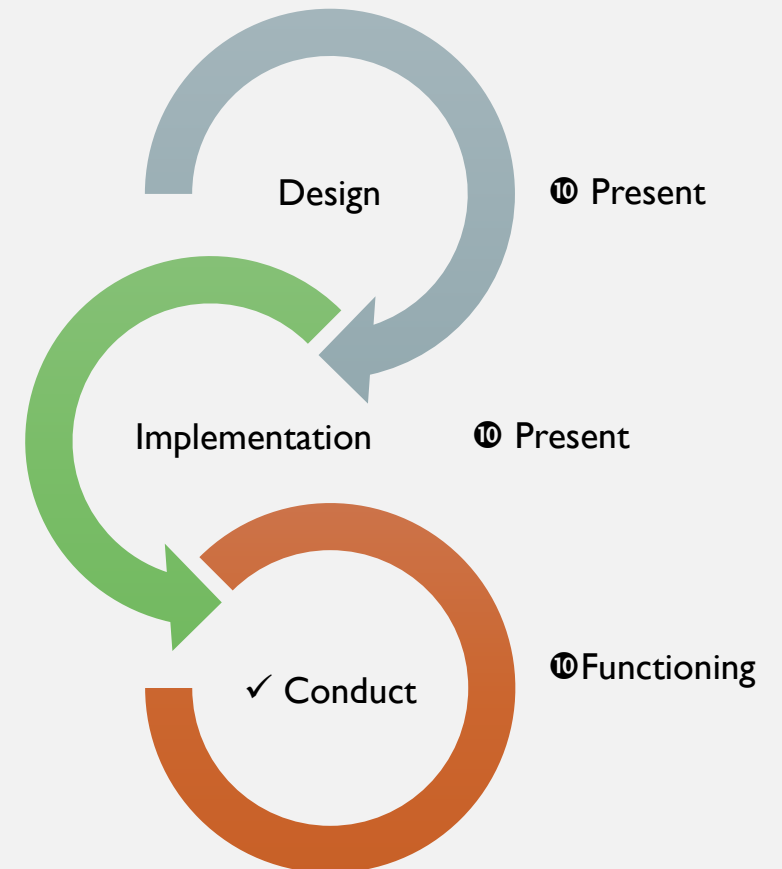
Conduct ❿ Functioning

Persuasive evidence must exist that proves controls are [deployed](#) to effect the components and related principles.

LEVEL OF PERFORMANCE

A principle being present and functioning does **not** imply that the agency achieves the **highest level of performance** in applying that particular principle.

Management exercises judgment in balancing the cost and benefit of designing, implementing, and conducting internal control.

Design   ⑩ Present

Implementation   ⑩ Present

✓ Conduct   ⑩ Functioning

DOCUMENTATION

Persuasive evidence **must exist** that proves controls are selected, developed, and deployed to effect the components and related principles.

This evidence should be kept and made available upon audit.

PRESENT AND FUNCTIONING EXAMPLES

CONTROL ENVIRONMENT

1. The agency demonstrates a commitment to integrity and ethical values.

2. The board of directors demonstrates independence from management and exercises oversight of the development and performance of internal control.

3. Management establishes - with board oversight - structures, reporting lines, and appropriate authorities and responsibilities in the pursuit of objectives.

4. The agency demonstrates a commitment to attract, develop, and retain competent individuals in alignment with objectives.

5. The agency holds individuals accountable for their internal control responsibilities in the pursuit of objectives.

Principle 1: The agency demonstrates a commitment to integrity and ethical values

Present		Functioning
Design	Implementation	Conduct
• Agency establishes a code of ethics and a code of conduct.	• The codes are published in a centralized location available to all staff. • The codes are well advertised by agency leadership.	• Ethics training is targeted, on-going, and tailored to the needs of each separate group within the agency. • Ethics Officer maintain an intranet site with clearly posted contact information and resources, including templates for various requests. • The codes are reinforced by management.

Principle 2: The board of directors demonstrates independence from management and exercises oversight of the development and performance of internal control

Present		Functioning
Design	Implementation	Conduct
• The agency performs risk assessments.	• The agency commissioner (or board of directors as appropriate) reviews the assessment of risks including potential impact of changes, fraud and management override.	• The agency commissioner (or board) appropriately questions and reacts to risks identified, including developing high-level policy to address risk.

Principle 3: Management establishes structures, reporting lines, and appropriate authorities and responsibilities in the pursuit of objectives

Present		Functioning
Design	Implementation	Conduct
• The agency creates a formal, documented organization structure.	• The agency issues a formal, documented organization structure.	• Current organization charts are reviewed and approved by management. • The approved organization charts are made available to all agency staff. • Organization charts depict clear structure, reporting lines, and authorities.

Principle 4: The agency demonstrates a commitment to attract, develop, and retain competent individuals in alignment with objectives

Present		Functioning
Design	Implementation	Conduct
• The agency develops a training policy or annual plan(s).	• The agency administers mandatory training courses and supports continuous training and development of staff.	• Training needs are tailored to each group within the agency. • Attendance/completion of training is tracked. • Training courses are reviewed annually for continued relevancy and/or new offerings. • Training courses are offered in a variety of formats.

Principle 5: The agency holds individuals accountable for their internal control responsibilities in the pursuit of objectives

Present		Functioning
Design	Implementation	Conduct
• Management establishes performance expectations throughout the agency.	• These expectations incorporate achieving performance measures and complying with internal control responsibilities.	• The agency holds individuals accountable for performance measures and internal control responsibilities. • The agency periodically evaluates performance measures for suitability and relevance.

RISK ASSESSMENT

6. The agency specifies objectives with sufficient clarity to enable the identification and assessment of risks relating to objectives.

7. The agency identifies risks to the achievement of its objectives across the agency and analyzes risks as a basis for determining how the risks should be managed.

8. The agency considers the potential for fraud in assessing risks to the achievement of objectives.

9. The agency identifies and assesses change that could significantly impact the system of internal control.

Principle 6: The agency specifies objectives with sufficient clarity to enable the identification and assessment of risks relating to objectives

Present		Functioning
Design	Implementation	Conduct
• Agency develops a strategic plan.	• The strategic plan includes the agency's mission, vision, goals, and strategic priorities.	• The agency communicates the strategic plan to all staff. • The strategic plan is published and available to all staff. • Management ensures functional objectives align with the agency's strategic plan.

Principle 7: The agency identifies risks to the achievement of its objectives across the agency and analyzes risks as a basis for determining how the risks should be managed

Present		Functioning
Design	Implementation	Conduct
• Management has a process to identify risks to the agency's mission.	• The agency performs a formal risk assessment.	• A risk assessment is performed annually and updated as risks change in between assessment periods. • Identified risks from all levels are reviewed holistically for likelihood and impact to the achievement of agency objectives.

Principle 8: The agency considers the potential for fraud in assessing risks to the achievement of objectives

Present		Functioning
Design	Implementation	Conduct
• Process in place to identify possible fraud that may occur within the agency's business process.	• Fraud risks consider drivers/causes of fraud (incentives, opportunity, and pressures).	• Agency performs a formal fraud risk assessment in addition to the annual risk assessment. • The agency risk assessment process includes fraud risks in the risk identification process. • Review of control activities to aid in the prevention/detection of fraud.

Principle 9: The agency identifies and assesses change that could significantly impact the system of internal control

Present		Functioning
Design	Implementation	Conduct
• Agency monitors for changes in legislation and/or regulations that may impact agency operations.	• Agency counsel identifies and tracks legislation and/or regulations that may impact agency operations.	• Agency counsel provides summaries of proposed/enacted legislation and/or regulations. • Agency counsel prepares comments on proposed legislation and/or regulations to appropriate parties. • Agency leadership discusses the impact of the legislation and/or regulation on agency operations.

CONTROL ACTIVITIES

10. The agency selects and develops control activities that contribute to the mitigation of risks to the achievement of objectives to acceptable levels.

11. The agency selects and develops general control activities over technology to support the achievement of objectives.

12. The agency deploys control activities through policies that establish what is expected and procedures that put policies into action.

Principle 10: The agency selects and develops control activities that contribute to the mitigation of risks to the achievement of objectives to acceptable levels

Present		Functioning
Design	Implementation	Conduct
• Agency requires records of all business transactions.	• Procedures are in place for employees to maintain accurate records of all business transactions (both financial and operational) to ensure completeness and validity.	• Employees are aware of procedures and receive training for updated best practices and procedural changes. • Management performs ongoing monitoring to ensure the completeness and validity of transactions. • Internal audit performs separate evaluations to ensure the completeness and validity of transactions.

Principle 11: The agency selects and develops general control activities over technology to support the achievement of objectives

Present		Functioning
Design	Implementation	Conduct
• Users must request access to systems.	• Users are granted access to only the system functions needed based on their role within the agency and internal control responsibilities assigned.	• Process in place for provisioning and deprovisioning of access requested by users. • Approval levels are established based on the access level being requested. • Access reviews and certifications of users are performed periodically.

Principle 12: The agency deploys control activities through policies that establish what is expected and procedures that put policies into action

Present		Functioning
Design	Implementation	Conduct
• Management establishes policies that clearly outline employee responsibilities, accountability, and support the agency's objectives.	• Management communicates these policies to all staff.	• Policies are formally published documents that are available to all staff. • Procedures are in alignment with agency policies, documented, up-to-date, and available to applicable staff. • Obtain periodic confirmations from employees confirming that policies and/or procedures have been received and understood.

INFORMATION & COMMUNICATION

13. The agency obtains or generates and uses relevant, quality information to support the functioning of internal control.

14. The agency internally communicates information, including objectives and responsibilities for internal control, necessary to support the functioning of internal control.

15. The agency communicates with external parties regarding matters affecting the functioning of internal control.

Principle 13: The agency obtains or generates and uses relevant, quality information to support the functioning of internal control

Present		Functioning
Design	Implementation	Conduct
• The agency generates internal reports and obtains reports from external sources to conduct agency business.	• Internal and external reports are distributed to staff as applicable.	• Reports are generated timely and in a format staff can use/read easily. • Internal report information is reviewed for accuracy prior to distribution. • External report information is verified for accuracy prior to use. • System checks/security are used to ensure information is correct and safeguarded.

Principle 14: The agency internally communicates information, including objectives and responsibilities for internal control, necessary to support the functioning of internal control

Present		Functioning
Design	Implementation	Conduct
• Agency commissioner supports the functioning of internal control.	• Agency commissioner issues a clear and concise statement supporting the functioning of internal control.	• Statement of support of internal control is reinforced with staff annually. • The statement can be a memo, address at a town hall meeting, or during meetings with agency units.

Principle 15: The agency communicates with external parties regarding matters affecting the functioning of internal control

Present		Functioning
Design	Implementation	Conduct
• A process is in place to communicate information to external parties.	• The agency appoints a Public Information Officer (PIO) to communicate with external parties on behalf of the agency.	• The PIO responds timely and appropriately to inquiries. • The PIO holds press conferences or issues press releases regarding matters affecting the functioning of internal control. • The agency's website contains information pertinent to the public.

MONITORING ACTIVITIES

16. The agency selects, develops, and performs ongoing and/or separate evaluations to ascertain whether the components of internal control are present and functioning.

17. The agency evaluates and communicates internal control deficiencies in a timely manner to those parties responsible for taking corrective action, including senior management and the Board of Directors, as appropriate.

Principle 16: The agency selects, develops, and performs ongoing and/or separate evaluations to ascertain whether the components of internal control are present and functioning

Present		Functioning
Design	Implementation	Conduct
• Ongoing evaluations are built into each business process.	• Routine reviews of key controls are performed. • Periodic reconciliations. • Routine monitoring of large or atypical transactions. • Automated software controls/exception reports of failed transactions.	• Reviews are performed at regular intervals (i.e. monthly, quarterly, semi-annually, annually, as needed). • Exception reports resulting from reviews are followed up by management. • Significant findings and variances are routinely documented and discussed at staff meetings.

Principle 16 continued

Present		Functioning
Design	Implementation	Conduct
• Separate evaluations performed by an independent party.	• Audits performed by the Internal Audit function. • Benchmarking studies. • Peer evaluations. • Reviews performed by control agencies. • Compliance reviews.	• Audit report or summary of results from the evaluation. • Agency responds in writing to the issuing party. • Documentation of corrective action taken when exceptions/recommendations are identified.

Principle 17: The agency evaluates and communicates internal control deficiencies in a timely manner to those parties responsible for taking corrective action, including senior management and the Board of Directors, as appropriate

Present		Functioning
Design	Implementation	Conduct
• A process is in place to report internal control deficiencies.	• Reports from Internal Control, Internal Audit, and external parties are issued to the agency commissioner and board of directors.	• Findings and recommendations are discussed with the issuing party and process owner. • Corrective action plans are agreed upon and formally documented. • Implementation status is tracked to completion. • Follow-up evaluations are conducted to confirm implementation and functionality.

WHAT HAPPENS IF SOMETHING IS MISSING OR NOT WORKING?

YOU HAVE IDENTIFIED A DEFICIENCY

INTERNAL CONTROL DEFICIENCY

Shortcoming in a component or relevant principle(s) that reduces the likelihood of the agency achieving its objectives.

DEFICIENCY IN DESIGN

Control necessary to meet a control objective is missing, or an existing control is not properly designed so that even if the control operates as designed, the control objective would not be met.

DEFICIENCY IN IMPLEMENTATION

Properly designed control is not implemented correctly in the internal control system.

DEFICIENCY IN CONDUCT

Properly designed control does not operate as designed, or when the person performing the control does not possess the necessary authority or competence to perform the control effectively.

MAJOR DEFICIENCY

Refers to an internal control deficiency, or combination of deficiencies, that severely reduces the likelihood that the agency can achieve its objectives.

When a major deficiency exists, the agency cannot conclude that it has met the requirements for an effective system of internal control.

A major deficiency in one component or principle cannot be mitigated to an acceptable level by the presence and functioning of another component or principle.

Deficiencies are evaluated both on an individual basis and in the aggregate.
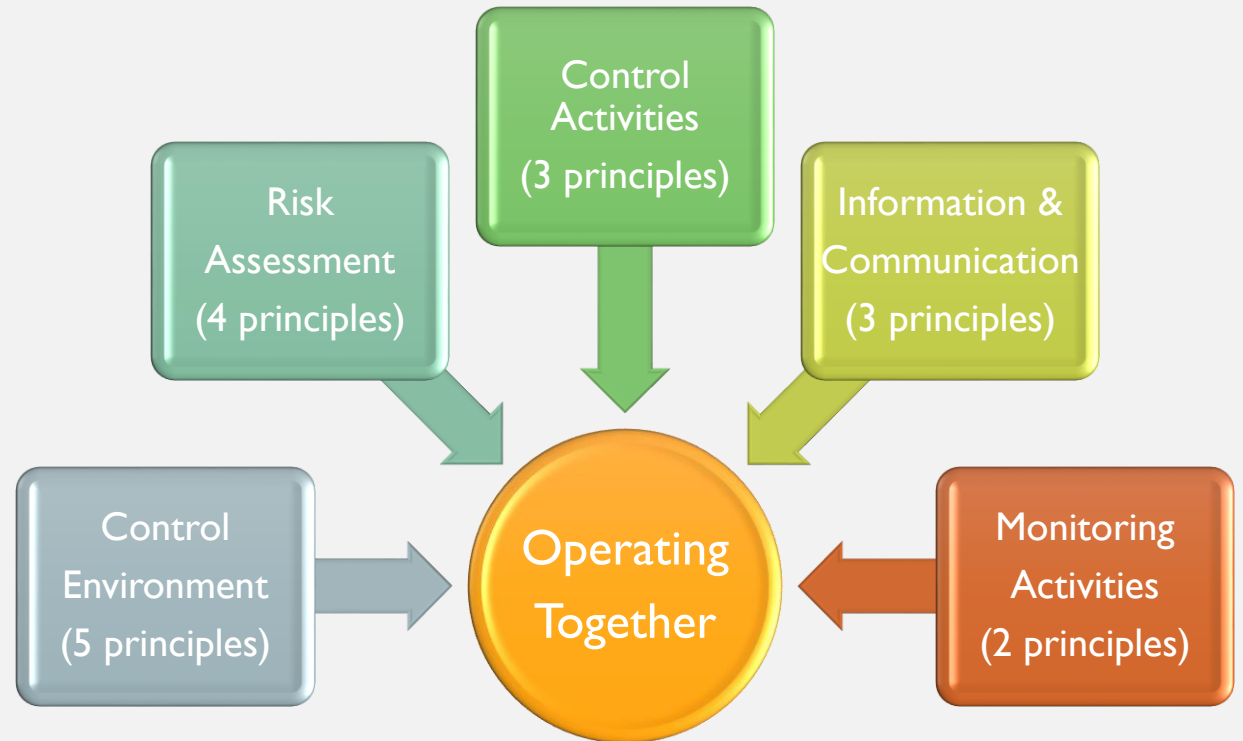
Management considers the correlation among different deficiencies or groups of deficiencies when evaluating their significance.

EFFECTIVE SYSTEM OF INTERNAL CONTROL

(Continued)

The determination that **all** five components collectively reduce, to an acceptable level, the risk of not achieving an objective.

Management can demonstrate that components operate together when **all** relevant principles are present and functioning and internal control deficiencies aggregated across components <u>do not result</u> in a major deficiency.
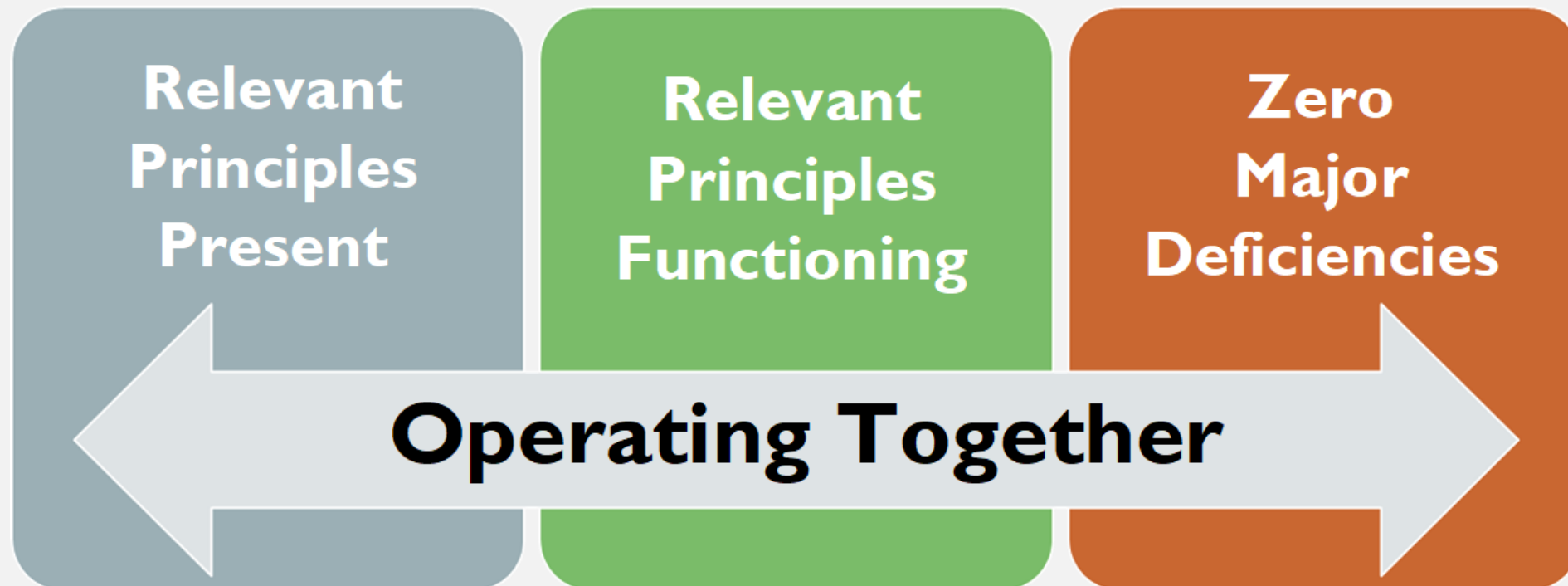
COMPONENT AND PRINCIPLE EVALUATION TEMPLATE

Principle Evaluation Worksheet

Component – **Control Environment**

Principle 1: Demonstrates Commitment to Integrity and Ethical Values

—The agency demonstrates a commitment to integrity and ethical values.

Points of Focus

- Sets the Tone at the Top – The board of directors and management at all levels of the agency demonstrate through their directives, actions, and behavior the importance of integrity and ethical values to support the functioning of the system of internal control.

- Establishes Standards of Conduct – The expectations of the board of directors and senior management concerning integrity and ethical values are defined in the agency's standards of conduct and understood at all levels of the agency and by outsourced service providers and business partners.

- Evaluates Adherence to Standards of Conduct – Processes are in place to evaluate the performance of individuals and teams against the agency's expected standards of conduct.

- Addresses Deviations in a Timely Manner – Deviations of the agency's expected standards of conduct are identified and remedied in a timely and consistent manner.

Examples

Governmental oversight body and senior management demonstrate a commitment to integrity and ethical values through its policies and lead by example. Agency head distributes periodic memoranda explaining the responsibilities and expectations regarding internal controls. Agency tracks and requires internal control training, and provides supplemental education and awareness throughout the year. Internal Control Officer works with managers to review major functions, risks and controls. Agency head establishes and publishes a code of ethics and code of conduct. The Ethics Officer tracks and conducts ethics training and handles approvals. The agency maintains an Ethics Intranet site with resources, including templates for various requests. The Ethics Office can be accessed by a dedicated email address or phone. Agency provides fraud training and awareness including methods to report concerns or suspicions. Agency has established whistleblower systems concerns and suspicions; processes are in place for notification of deviations up the chain of command and to the hosting agency, when appropriate; disciplinary practices for all ethical violations are consistently enforced; and employee commitment to the agency's ethical values is rewarded.

Summary of Controls to Effect Principle 1:

Principle Evaluation	Y/N	Explanation/Conclusion
Is the principle present?		
Is the principle functioning?		

Internal Control Deficiency Identified:

Major Deficiency Identified: *

Effectiveness of Internal Control - Evaluation Summary Worksheet

Agency or part of organization structure subject to the evaluation (entity, division, operating unit, function):	

Objective(s) being considered for the scope of internal control being evaluated	Considerations regarding management's acceptable level of risk
Operations	
Reporting	
Compliance	

Are all components and principles determined to be suitable and relevant for this evaluation?

(Y/N)	If not, please support your determination with rationale of how, in the absence of that principle, the associated component can be present and functioning.

Are components present and functioning?	Present? (Y/N)	Functioning? (Y/N)	Explanation/Conclusion
Control Environment			
Risk Assessment			
Control Activities			
Information and Communication			
Monitoring Activities			

Overall Evaluation	(Y/N)	Explanation/Conclusion
Are all components operating together in an integrated manner?		
Is the overall system of internal control effective?*		

QUESTIONS

NYSICA has published the guide and template for you on the Library tab of our website: www.nysica.com