

# INTERNAL CONTROL AT OCFS

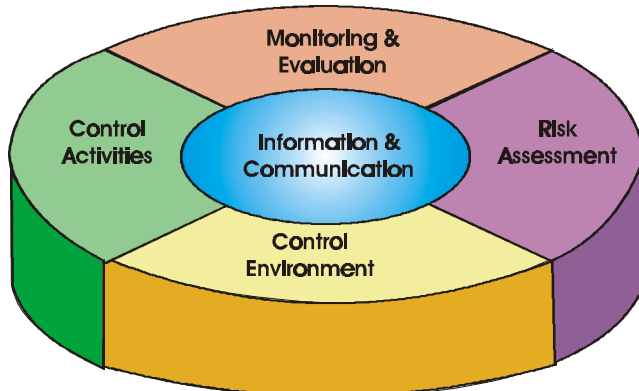
Internal control is a management process, effected by agency management and personnel, designed to provide *reasonable assurance* regarding achievement of objectives in four categories:

- **O**perations are effective and efficient
- **C**ompliance with applicable laws and regulations is achieved
- **F**inancial and management reporting is reliable and timely
- **S**afeguarding of Assets (including our reputation) is a priority

**There are five major components integrated with this management process:**

- Control Environment
- Risk Assessment
- Control Activities
- Information and Communication
- Monitoring

## Five Major Components of Control Self-Assessment



## CONTROL ENVIRONMENT

**The core of OCFS operations is people** – their individual talents and integrity, ethics and competence – and the environment in which they work.

The control environment sets the stage for people to carry out their responsibilities, including assessing risks which interfere with achievement of objectives, implementing management controls to address risks, capturing and communicating relevant information throughout the organization, and monitoring the entire process, modifying controls and methods as conditions warrant.

Simply restated, the **Control Environment**:

- Sets the tone of an organization, influencing the control consciousness of its people.
- Is the foundation for all other components of internal control, providing discipline and structure.

Control environment factors include:

- Integrity, ethical values and competence of the entity's people.
- Management's philosophy and operating style.
- The goals and objectives of the agency.
- The way management assigns authority and responsibility, organizing and developing its people.
- The attention and direction provided by top management.

## RISK ASSESSMENT

**The agency must be alert to the risks it faces in meeting its mission.** This requires that we establish mechanisms to identify, analyze and manage risks with threaten our mission and the four objectives of management control (effective/efficient operations, compliance with applicable laws and regulations, reliable financial and management reporting, and safeguarding of assets)

### **Risk Assessment factors:**

- Every entity faces a variety of risks from external and internal sources that must be assessed.
- A precondition to risk assessment is establishment of objectives, linked at different levels and internally consistent.
- Risk assessment is the identification and analysis of relevant risks to achievement of the objectives, forming a basis for determining how the risks should be managed.
- Because economic, regulatory and operating conditions will continue to change, mechanisms are needed to identify and deal with the special risks associated with change.
- There are risks inherent in any activity. Smart managers know the potential impact and likelihood of occurrence of any number of risks, and put in place cost-effective controls to manage those risks.
  - **External risks** such as vendor fraud could compromise health and safety of staff, clients, residents, and the public.
  - **Internal risks** such as inadequate employee training, aging buildings or ailing computer systems also imperil an organization and the people it serves.

## CONTROL ACTIVITIES

**Policies and procedures** must be established – and executed – to help ensure actions are effectively carried out to address risks that interfere with achievement of mission. In OCFS this includes internal policies governing agency actions, and external policies affecting local social services districts and service providers.

To ensure success, measure progress, and control risks, policies and procedures are put into practice that address potential risks in a cost-effective fashion.

### **Control Activities:**

- Include the policies and procedures that help ensure management directives are carried out and goals are achieved.
- Define the necessary actions to be taken to address risks that threaten achievement of agency objectives.
- Occur throughout the organization, at all levels and in all functions.
- Are designed to oversee the administration of activities, provide proper supervision at critical points in a process, and document decisions.
- Include a range of activities as diverse as:
  - Approval and authorization
  - Verification and reconciliation
  - Reviews of operating performance
  - Security of assets
  - Segregation of duties.

# INFORMATION & COMMUNICATION

**Goals and objectives of the agency must be clearly stated to OCFS staff and key stakeholders.**

Effectiveness and efficiency depend on timely and accurate capture of relevant information, and appropriate **sharing of information** throughout OCFS as well as sharing with our partners in programming: local social services districts, local government, voluntary agencies and service providers.

Some of this information will be included in internal policy and procedures manual, external policy directives, memos of understanding, internal communications and employee instructions – laying the ground-work for effective and efficient operations.

## **Information & Communication:**

- Pertinent information must be identified, captured and communicated in a form and timeframe that enables people to understand and carry out their responsibilities.
- Information systems produce reports, containing operational, financial and compliance-related information, that make it possible to run and control the agency and its programs.
- Information systems deal not only with internally-generated data, but also information about external events, activities and conditions necessary to informed decision-making and external reporting.

- Effective communication also must occur in a broader sense, flowing down, across and up the organization. All OCFS staff and our local partners must receive a clear message from top management regarding their expectations for delivery of appropriate services.
- All personnel must understand their own role in the internal control system, as well as how individual activities relate to the work of others. OCFS staff must have a means of communicating significant information upstream.
- There also needs to be effective communication with external parties, such as customers, suppliers, regulators, local districts, community organizations and voluntary agencies.
- Organizations have always relied on timely and accurate information to ensure goals are achieved. Decisions are made and actions are taken based on the best available data.

## MONITORING & EVALUATION

Monitoring and evaluation serve as the “eyes and ears” of the agency, tracking ongoing activities and measuring program effectiveness throughout OCFS and the community it serves. Programs and their internal control systems need to be monitored – to assess the quality of the agency’s performance over time. This is accomplished through ongoing monitoring activities, independent evaluations, or a combination of the two.

**Monitoring** (ongoing) enables managers and staff to identify newly emerging risks, quantify ongoing risks, then modify systems and instructions as necessary to achieve results.

Monitoring occurs in the day-to-day course of operations. It includes regular management, supervisory and program oversight activities, and other actions taken by staff in performing their duties. On a daily, weekly or monthly basis, supervisors or administrators apply different techniques to review critical aspects of an operation to ensure that key elements are conducted properly.

**Evaluation** (periodic or occasional) by neutral observers provides perspective and objectivity to determine how policies/ procedures and controls in place effect positive outcomes for a program.

The scope and frequency of independent **evaluations** depends primarily on assessment of risks, and the effectiveness of ongoing monitoring procedures.

**Corrective Action** Where performance falls short of expectation, monitors and/or evaluators notify those responsible for taking corrective action, and engage in follow-up activity to achieve objectives. Internal control deficiencies should be reported upstream, with serious matters reported to top management.

While every supervisor, manager and program director retains monitoring responsibilities, a number of specialized organizations have been established within OCFS to monitor and evaluate program quality and accountability, including:

- **Program Support** to monitor the myriad programs and grants administered by the Division of Development & Prevention Services;
- **Strategic Planning & Policy Development** applies sociological and statistical research methods to evaluate long-term program success;
- **Program Services** focuses on standards and quality of counseling, education and health services in OCFS facilities;
- **Audit & Quality Control** conducts on-site audits of OCFS facilities, contract audits of community service providers, as well as audits of local social services districts regarding their implementation of state and federal funding programs;
- **Field Operations** provides technical assistance and monitoring for local social services districts, voluntary agencies and youth bureaus;
- **The NYC Regional Office** provides technical assistance and monitoring of all child and family service activity in New York City.

**Monitoring and evaluation** are similar to **auditing** in that they start with a set of expectations/goals and compliance standards, then measure performance against those goals or standards.

- **Monitoring** is conducted by individuals or organizations which are responsible for the design and implementation of programs. Monitors may also have direct contact with clients or customers, provide technical assistance and training to service providers, and have a personal stake in outcome success.
- **Objectivity** requires that such goals and standards be observable and measurable.
- **Independent evaluators and auditors** have a separate reporting relationship within OCFS, are at “arm’s length” from the program or process, and have no inherent stake in program design or outcome. In OCFS, auditors serve as un-biased eyes and ears to the Commissioner.