



New York State Office of the State Comptroller
Thomas P. DiNapoli

Division of State Government Accountability

Internal Control System Components

Workers' Compensation Board



Report 2015-S-46

October 2015

Executive Summary

Purpose

To determine whether the Workers' Compensation Board's management of its internal control system appropriately addresses all five components of internal control. Our audit scope included the period January 1, 2013 through August 11, 2015.

Background

In 1987, the Legislature passed the New York State Governmental Accountability, Audit and Internal Control Act requiring each State agency to institute a comprehensive system of internal control over its operations. The Division of the Budget's Budget Policy and Reporting Manual Bulletin B-350 requires the head of each covered agency to certify compliance with the Act by April 30 of each year by submitting a Certification and Internal Control Summary describing the internal control activities undertaken during the previous year. As the State's chief fiscal officer, the Comptroller also has several responsibilities under the Act, including providing technical assistance to agencies, conducting audits of internal control, and issuing the Standards for Internal Control in New York State Government (Standards). The Standards form the minimum expectations for internal control in State agencies and public authorities and provide guidance to State officials on establishing and evaluating a comprehensive system of internal controls. Included in that guidance are five specific components of internal control that must be addressed by each system: control environment, control activities, risk assessment, information and communication, and monitoring.

Key Findings

- The Workers' Compensation Board has recently made significant improvements to its internal control system and, as a result, the current system adequately addresses all five required components of internal control.
- Due in part to the substantial nature of these changes, managers in some units need additional training and outreach to gain a better understanding of how internal controls relate to them.
- The Internal Audit Unit reports to the Director of the Risk Management Unit, who also functions as the Internal Control Officer. This reporting relationship compromises the independence of the internal audit function.

Key Recommendations

- Provide additional training and outreach to unit managers, especially in non-financial functions, to increase their understanding of internal controls present and functioning within their units.
- Separate the duties associated with the internal control and internal audit functions, specifically as they relate to reporting to executive management and the Workers' Compensation Board.

Other Related Audit/Report of Interest

[Office of Temporary and Disability Assistance: Internal Control System Components \(2015-S-4\)](#)

**State of New York
Office of the State Comptroller**

Division of State Government Accountability

October 1, 2015

Mr. Robert E. Beloten
Chair
Workers' Compensation Board
100 Broadway
Menands, NY 12204

Dear Mr. Beloten:

The Office of the State Comptroller is committed to helping State agencies, public authorities, and local government agencies manage government resources efficiently and effectively and, by so doing, providing accountability for tax dollars spent to support government operations. The Comptroller oversees the fiscal affairs of State agencies, public authorities, and local government agencies, as well as their compliance with relevant statutes and their observance of good business practices. This fiscal oversight is accomplished, in part, through our audits, which identify opportunities for improving operations. Audits can also identify strategies for reducing costs and strengthening controls that are intended to safeguard assets.

Following is a report of our audit of the Workers' Compensation Board entitled *Internal Control System Components*. This audit was performed according to the State Comptroller's authority under Article V, Section 1 of the State Constitution and Article II, Section 8 of the State Finance Law.

This audit's results and recommendations are resources for you to use in effectively managing your operations and in meeting the expectations of taxpayers. If you have any questions about this report, please feel free to contact us.

Respectfully submitted,

*Office of the State Comptroller
Division of State Government Accountability*

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Background

Internal control 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. While the overall purpose of an internal control system is to help an organization achieve its mission, internal control also helps an organization to 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; promote adherence to laws, regulations, contracts, and management directives; develop and maintain reliable financial and management data; and accurately present that data in timely reports.

In 1987, the Legislature passed the New York State Governmental Accountability, Audit and Internal Control Act (Act) requiring each State agency to institute a comprehensive system of internal controls over its operations. The Division of the Budget's (DOB) Budget Policy and Reporting Manual Bulletin B-350 requires the head of each covered agency to certify compliance with the Act by April 30 of each year by submitting a Certification and Internal Control Summary (Certification) describing the internal control activities undertaken during the previous year.

As the State's chief fiscal officer, the Comptroller also has several responsibilities under the Act, including providing technical assistance to agencies, conducting audits of internal controls, and issuing the Standards for Internal Control in New York State Government (Standards). The Standards have been developed in part from those advocated by leading authorities in the field of internal control, such as the Committee of Sponsoring Organizations of the Treadway Commission, the U.S. Government Accountability Office, and other professional organizations.

Past audits have examined various aspects of internal controls, such as the quality and timeliness of the certifications submitted to DOB. This audit is one of a series that focuses specifically on the management of internal control systems present and operating at State agencies and whether those agencies have appropriately addressed all five components of internal controls (control environment, control activities, risk assessment, information and communication, and monitoring).

The mission of the Workers' Compensation Board (Board) is to protect the rights of employees and employers by ensuring the proper delivery of benefits to those who are injured or ill and by promoting compliance with the law. The workers' compensation system guarantees both medical care and weekly cash benefits to people who are injured on the job. The Board's internal control system is segregated into 19 units and 113 functions.

Audit Findings and Recommendations

The Board has recently made significant improvements to its internal control system and, as a result, the current system adequately addresses all five required components of internal control. The Board now has multiple controls in place that assist staff in their efforts to establish and evaluate the system effectively. However, our inquiries indicate that, due in part to the substantial nature of these recent changes, managers in some units need additional training and outreach to help them gain a better understanding of how internal controls relate to them.

Internal Control System Components

According to the Standards, it is the managers of the individual units who are responsible for determining the effectiveness of the system of internal control within their respective operations. This includes identifying and managing risks, establishing controls to minimize risk, and testing these controls to ensure they are working as intended. This also includes evaluating the unit's control environment, communication systems, and monitoring efforts. As a part of the yearly certification, agencies must describe the process and cycle they use to assess risk and review control for each major function.

In January 2014, the Board began a process to improve and enhance its existing internal control system. The Board hired an Internal Control Coordinator (ICC) to assist in this process. Prior to this time, the Board did not have a process in place to ensure that managers were formally evaluating the effectiveness of the internal control systems in their units. Managers were not required to formally identify risks, test controls, or institute corrective action plans. Although managers were told to complete a risk assessment, they were not provided with guidance on how to do this. Additionally, there was no accountability over the risk assessments. As a result, some units completed them while others did not. Further, there was no follow-up when risk assessments were not complete, no verification of the testing of controls, and no monitoring of corrective action plans.

Since January 2014, the ICC has created a standardized risk assessment form for all of the units and now monitors units' compliance with completing them. The ICC has also provided education and training to the units to help them understand the risk assessment process. The ICC has aided the units in designing tests for their existing controls and in implementing appropriate corrective action plans where weaknesses have been identified.

Beginning with the Board's 2014-2015 internal control Certification, each unit now identifies significant risks and controls associated with each function. Each unit also tests the controls in place to ensure they are working as intended, identifies any weaknesses, and implements and monitors corrective action plans to improve the weakness. Additionally, each unit evaluates its control environment, information and communication systems, monitoring, and controls over the security of information.

The risk assessment questionnaire provided to each unit functions as a guideline and includes

18 evaluation factors that identify the areas where each unit should ensure that adequate controls are in place and operating properly. Some evaluation factors include employee turnover and the handling and storage of sensitive data. The major risks to the Board are identified and communicated through their Certification. Major risks are also communicated through a report created by the ICC and presented at a monthly Board meeting by the Director of the Risk Management Unit.

We also found that the Board's Internal Audit Unit undertakes several activities in support of the internal control system. The majority of activities performed by Internal Audit are directed toward providing assurance that the Board's network of risk management, control, and governance processes, as designed by management, is adequate and functioning appropriately. The Board's 2015-2017 internal audit plan identifies 33 auditable areas, nine of which are scheduled to be examined during the current cycle and will specifically focus on areas that will assist management in ensuring that risks are appropriately identified and managed and that adequate controls are incorporated within new systems and processes. These audits are also planned to determine if employees' actions are in compliance with policies, standards, procedures, and applicable laws and regulations; if programs, plans, and objectives are being achieved; and if significant financial, managerial, and operating information is accurate, reliable, and timely.

Although we determined that the Board has made substantial improvements in its internal control system and the current system adequately addresses all five components of internal controls, we also found that additional outreach and education are needed in some areas. The internal control procedures in place are new and, based on our discussions with unit managers, we found that some units are still reluctant to perform them. In general, we found units that do not have a direct financial function were more likely to believe that internal controls really do not apply to them. They did not recognize how activities they perform as a part of the day-to-day operations within their units actually function as internal controls. As a result, there continues to be a risk that some managers lack a true understanding of the internal controls in their units and may complete their internal control forms largely by rote.

Internal Audit Unit Placement

Professional audit standards require that internal auditors report to the highest levels of the organization and avoid assuming operational responsibilities or engaging in other activities that may impair their independence. In keeping with these requirements, the Internal Control Standards require that internal auditors not function as their entity's Internal Control Officer (ICO) and be organizationally independent of the internal control function. The Board's current organizational structure is contrary to these guidelines. Currently, the Director of Internal Audit reports to the Director of the Risk Management Unit, who also holds the ICO title. As a result, because the Director of Internal Audit reports to the ICO, the duties of the Internal Audit Unit and the Internal Control Unit are not sufficiently independent of each other.

Recommendations

1. Provide additional training and outreach to unit managers, especially in non-financial

functions, to increase their understanding of internal controls present and functioning within their units.

2. Separate the duties associated with the internal control and internal audit functions, specifically as they relate to reporting to executive management and the Board.

Audit Scope, Objective, and Methodology

Our audit objective was to determine whether the Board's management of its internal control system appropriately addresses all five components of internal control. Our audit scope included the period January 1, 2013 through August 11, 2015.

To accomplish our objective, we reviewed the Office's 2012-2013, 2013-2014, and 2014-2015 internal control Certifications, as well as documentation of risk assessments and self-assessments that the Board used in establishing and evaluating the components of internal control. In addition, we interviewed the Internal Control Coordinator, the Director of Internal Audit, and the unit managers to learn more about their internal control system.

We conducted our performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence we obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

In addition to being the State Auditor, the Comptroller performs certain other constitutionally and statutorily mandated duties as the chief fiscal officer of New York State. These include operating the State's accounting system; preparing the State's financial statements; and approving State contracts, refunds, and other payments. In addition, the Comptroller appoints members to certain boards, commissions, and public authorities, some of whom have minority voting rights. These duties may be considered management functions for purposes of evaluating organizational independence under generally accepted government auditing standards. In our opinion, these functions do not affect our ability to conduct independent audits of program performance.

Authority

This audit was performed pursuant to the State Comptroller's authority under Article V, Section 1 of the State Constitution and Article II, Section 8 of the State Finance Law.

Reporting Requirements

A draft copy of this report was provided to Board officials for their review and comment. Their comments are attached in their entirety to the end of this report. In general, officials agreed with our recommendations, and they have taken action to implement our recommendation to

separate the duties associated with the internal control and internal audit functions.

Within 90 days of the final release of this report, as required by Section 170 of the Executive Law, the Chair of the Workers' Compensation Board shall report to the Governor, the State Comptroller, and the leaders of the Legislature and fiscal committees, advising what steps were taken to implement the recommendations contained herein, and where recommendations were not implemented, the reasons why.

Contributors to This Report

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Vision

A team of accountability experts respected for providing information that decision makers value.

Mission

To improve government operations by conducting independent audits, reviews and evaluations of New York State and New York City taxpayer financed programs.

Agency Comments



Workers' Compensation Board

ANDREW M. CUOMO
Governor

ROBERT E. BELOTEN
Chair

September 23, 2015

Mr. John Buyce
Audit Director
Office of the State Comptroller
110 State Street, 11th Floor
Albany, NY 12236

Re: Audit Report 2015-S-46

Dear Mr. Buyce:

This letter serves as a response to your recent report related to the Internal Control System for the period January 1, 2013 through the end of the audit.

With regard to the specific recommendations made in the audit report, we offer the following:

1. The first recommendation reads "Provide additional training and outreach to units on internal controls to increase their understanding of internal controls present and functioning within their units." The Internal Control Unit began in 2014 providing individualized training to all functional managers and supervisors on the completion of the required Internal Control Review forms. In addition, every WCB (Board) employee is required to complete annual Internal Control Training. Detailed instructions and revised forms were prepared for the current fiscal year 2015/16 and made available on the Board's intranet site. The Internal Control unit has continued with providing individualized training to the responsible function managers and supervisors. The Board recognizes the need for additional training and outreach and plans are in place to provide a refresher to reinforce training currently in place.
2. The second recommendation reads "Separate the duties associated with the internal control and internal audit functions, specifically as they relate to reporting to executive management and the Board." It is our position that these functions are completely separated. We have complied with the recommendation made during the closing conference. We have appointed a new Internal Control Officer and that officer will report directly to the Director of Risk Management.

Thank you for the opportunity to respond. We also would like to express our appreciation of the professionalism and courtesy extended by your audit staff during the course of the audit.

Sincerely,

Robert E. Beloten