

Ulster County
Office of the Comptroller



ENSURING 'GOOD THINGS' HAPPEN AND 'BAD THINGS' DON'T

A White Paper on Improving Internal Control in
Ulster County's New Charter Form of Government

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PREFACE

On January 1, 2009 Ulster County became a charter form of government. Prior to that date County governmental departments were supervised by committees of the legislature, a legislative chairperson, and a county administrator. Today the County is governed by a county legislature and administered by a county executive who oversees county departments.

This is a watershed period in history for Ulster County government. Opportunities abound for implementing “an integration of the activities, plans, attitudes, policies, systems, resources and efforts of the people of an organization working together to provide reasonable assurance that the organization will achieve its objectives and mission.¹” In other words, this is the perfect nexus in time to establish new and reinvigorate existing systems of internal control as Ulster County departments reorganize as designed under the Ulster County Charter (Charter).

Internal control activities are designed to protect county resources and to help assure the conduct of county government occurs according to plan, that the success participants work to achieve is realized. The right internal controls can help ensure that “good” things happen and that “bad” things don’t.

INTRODUCTION

The New York State Office of the State Comptroller explains that “internal controls “help 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; and
- Develop and maintain reliable financial and management data, and accurately present that data in timely reports.

Consistent with the mission of the Ulster County Office of the Comptroller and the duties ascribed to the Comptroller as the County’s Chief Auditing and Accounting Officer, it was determined that a baseline analysis of existing internal controls would be undertaken.

In mid-December 2008, then Ulster County Comptroller-elect Elliott Auerbach sent to County department leaders a survey instrument designed to evaluate County compliance with the

¹ Standards for Internal Control in New York State Government, October 2007, Thomas P. DiNapoli, State Comptroller.

internal control standards established by the Office of the State Comptroller. The findings and recommendations are intended to:

1. Establish a baseline of the control environment measures against which future progress can be gauged;
2. Identify areas to strengthen internal controls;
3. Report to the Legislative and Executive branches of county government the status of control environment and the opportunities to improve it; and
4. Communicate to the public the findings of the analysis and their impact on the efficiency and effectiveness of county departments.

The survey has been completed and a report on its findings and recommendations will soon be issued. This paper has been prepared as a precursor to the Internal Control Survey Report.

MISSION AND AUTHORITY

The mission of the Ulster County Office of the Comptroller is to serve as an independent agency of the people and to protect the public interest by monitoring County government to assess and report on the degree to which its operation is economical, efficient and/or effective and its financial condition sound.

The Ulster County Office of the Comptroller was established with the passage of Ulster County local Law #2 (2006), A Local Law Adopting the Ulster County Charter (“Charter”).

The Charter and the Ulster County Administrative Code (“Code”) provide the authority for the Comptroller’s Office to conduct audits and provide for an internal audit function in County government.

Article IX, Section A9-2 of the Charter provides that the Comptroller is the “chief accounting and auditing officer of the County.”

Article IX, Section A9-2.G. of the Charter provides that the Comptroller shall “audit any department, program or function of the County government to assess the degree to which its operation is economical, efficient and/or effective:”

Article IX, Section A9-2.H. of the Charter provides that the Comptroller shall “For the purposes of carrying out his or her powers and duties, have the power to require the attendance of and take the testimony under oath of such persons as the Comptroller may deem necessary;”

Article IX, Section A9-2.J. of the Charter provides that the Comptroller shall “Have all the powers and perform all the duties conferred or imposed by law upon a County comptroller...”

It is the role of the Office of the Comptroller to be independent of county business activities and free from interference in establishing the scope of its work and the communication of the results of its work. This is why the Charter specifically establishes the Office of the

Comptroller and segregates operational, management and policy functions into the Executive and Legislative branches of County government.

The purposeful separation of duties does not preclude a strong working relationship between the Office of the Comptroller and the Legislative and Executive branches of government, particularly as relates to fostering a strong and resilient internal control environment.

OBJECTIVES AND SOURCES

This paper has been prepared to introduce the concepts of internal control in the context of Ulster County's new charter government and to be a user friendly reference document for continuous improvement in the County's system of internal controls.

This paper relies heavily on two documents prepared by the NYS Office of the Comptroller – “Standards for Internal Control in New York State Government” and “Local Government Management Guide, Internal Controls.” We fully credit these documents for the many instances within this paper that we refer to or use verbatim the definitional and technical explanations of the field of internal control. We encourage the reader to download, save and reference these documents for guidance. They can be found at www.osc.state.ny.us.

GOVERNMENTAL ROLES IN INTERNAL CONTROL

The application of internal control is dynamic often requiring change as circumstances change. The practices that fit the past in Ulster County government may now need to be adjusted.

Essential to internal control is the setting of goals and objectives which should be incorporated into a strategic plan that includes a mission statement and broadly defined initiatives. Each department should identify goals and objectives that support the strategic plan.

The Charter created County government to provide a structural foundation for a positive, overall system of internal control. Clarifying the elements of the control environment contextually in relation to the County's new structure will help achieve Charter's oft mentioned goal of assuring the “effectiveness, efficiency and economy with which county government is run.”

Critical areas of governance that, according to the Charter, fall within the purview of the County Legislature include:

- To make appropriations and adopt a budget and capital program;
- All powers of local legislation including enacting, amending, or rescinding local laws, legalizing acts, local laws or resolutions;
- Adopt, amend or repeal an Administrative Code;
- To create, alter, combine or abolish County administrative units;
- Approve all labor contracts; and

- To approve all contracts and change orders in excess of \$50,000

Critical areas of governance that, according to the Charter, fall within the purview of the County Executive include:

- Supervise and direct the internal structure and organization of every unit of the executive branch of County government;
- Reorganize the duties of, create, combine, separate, or eliminate executive departments, with confirmation of the Legislature;
- Negotiate all employee contracts;
- Prepare and submit to the County Legislature the annual budget and capital program;
- Require regular reports of all County-funded agencies, assuring that publicly provided funds are used in accord with overall County plans.

The attitude toward internal control is the responsibility of all the people who participate in an organization, yet, traditionally, it is the “tone at the top” from which these attitudes originate.

According to the NYS Office of the Comptroller there are five basic components of internal control:

1. control environment,
2. communication,
3. assessing and managing risk,
4. control activities, and
5. monitoring.

I. Control Environment

The control environment is the foundation for all other components of an organization’s internal control structure. It embodies the philosophy, style and supportive attitude of the individuals involved as well as their competence, ethical values, integrity and morale.

Examples of practices that affect the control environment include:

- approving and monitoring the organization’s mission and strategic plan;
- establishing, practicing and monitoring the organization’s values and ethical code; and
- ensuring and providing accountability to stakeholders.

The control environment is important because it sets standards of operation and expectations for performance and achievement. It also establishes a culture of accountability.

The leadership practiced and the tone established by both the Legislative and Executive branches of County government has a profound impact on how employees fulfill their responsibilities and on how the public perceives the value of the services it received from its taxes.

The County Legislature's role in the control environment is significant. It sets and monitors the County's mission and strategic direction, it codifies and demonstrates the County's values and ethical code, and it demonstrates accountability to stakeholders through its allocation of public funds.

The Executive's role in assuring a quality control environment is extensive and involves development and administration of policies and procedures, job descriptions, personnel policies and performance evaluations. The Executive's management style, philosophy and "tone at the top" filters throughout the county through the decisions and actions of senior managers as they administer key business processes, supervise departments and assure accountability.

The Office of the Comptroller, according to the Charter, does not have a direct governance role as it must be independent of typical governance responsibilities in order to maintain an impartial, unbiased attitude and avoid conflicts of interest. Nonetheless, meaningful communication between the Comptroller and the Executive and Legislative branches of County government can provide understanding and guidance on issues central to the effectiveness, efficiency and economy of County operations.

II. Communication

Communication is the sharing of information between and among people and organizations and it a critical function to achieving the goals and objectives of an organization.

Examples of practices that affect communication as a component of internal control include:

- providing timely information;
- assuring information flows through channels in all directions;
- informing employees of their duties and responsibilities; and
- facilitating the reporting of sensitive matters and employee suggestions for improvement.

Strong communication practices are important because necessary and accurate information received in a timely manner affects how individuals make decisions and how they coordinate their activities.

Within the County Legislature's sphere of governance, effective communication is crucial to assuring that the laws, policies and strategies it enacts achieve their objectives. Through its committee structure and political processes the Legislature assures that a local law under consideration will benefit from early exposure, input and deliberation. Likewise, monitoring the implementation and effectiveness of the acts it takes requires effective communications within the County and with external sources.

Within the County Executive's sphere of governance, communication and information efficacy are fundamental to the administration of County staff. The success of the policies and strategies approved by the Legislature are intrinsically tied to the success with which the Executive branch provides the information necessary for all employees to carry out their responsibilities effectively.

It is the role of the Office of the Comptroller to produce and communicate the financial, operational and compliance audits and reports it generates. Regular reporting of findings in a manner that not only lets the sun shine on matters requiring it, but also educates, offers guidance and promotes best practices is an effective means of using information and communication to improve the control environment within the County. For the benefit of the public, these communications must also provide a basis for accountability.

The Office of the Comptroller is also a source for the reporting by people internal and external to the County government of sensitive matters that warrant an independent evaluation.

III. Assessing and Managing Risk

Risk assessment is an on-going process to identify, evaluate and monitor events that threaten the success of activities undertaken to fulfill the mission of an organization. Risk management is the evaluation of identified risks to determine whether to accept the risk of a given situation, prevent or reduce the risk, or avoid the risk entirely.

Risk assessment and management practices warrant deliberate effort and we refer the reader to resource materials previously identified in this paper for a comprehensive understanding of the process which involves:

- preparing to assess risk;
- the risk assessment process;
- managing risk;
- preventing or reducing risk; and
- managing risk during change.

Risk may come from both internal and external sources, which is why it is important that the practice become integral to an organization's decision making responsibilities.

A key role played by the County Legislature in this regard rests in its understanding of the economic, social and political environment within which it designs and enacts laws and approves spending. Policy development from the outset needs to assess risks that may or may not result from the intent or design of the policy. For example, risk assessment may take the form of a documented cost/benefit analysis under consideration for funding. Also the sufficiency of funding levels appropriated to fulfill the duties set forth in the Charter or in County law poses risks that need to be evaluated as part of decision making.

As management, the role of the County Executive in assessing and managing risk is broad and deep, it permeates all levels of all departments overseen by the Executive. These risks can be both internal (e.g., human error, fraud, system breakdowns) and external (e.g., changes in legislation, natural disasters). With clear and consistent county-wide objectives and activities, management will have a strong foundation for establishing both a culture and practice of on-going risk assessment and risk management practices.

Risk management does not mean that all actions and decisions must be risk free. The responsibility of decision makers is to know and evaluate what risks exist, then to establish controls for monitoring and limiting the risks they deem necessary or appropriate to take.

The Charter provides that the Office of the Comptroller shall audit any department, program or function of County government to assess the degree to which it is economical, efficient and/or effective. Risk assessment analyses are fundamental to fulfilling this duty as are the reporting as are communication of findings as described above.

IV. Control Activities

Control activities are the policies and procedures that help identify, prevent or reduce the risks that can impede the accomplishment of an organization's mission, goals and objectives. These activities guide individuals in the organization as they fulfill their responsibilities.

For example, approvals and authorizations, separation of duties, safeguarding of assets, or reporting and analysis are procedural control activity tools.

These activities are important because they counter risks by preventing the occurrence of undesirable events (prevention activities) or detecting undesirable events when they do occur (detection activities).

Prevention control activities at a legislative level include, for example, ensuring that laws enacted or resolutions adopted are in compliance with state and federal laws and regulations. Detection activities include receipt and analysis of financial and program reports as compared to the goals and objectives for which the functions were funded.

Administrative control activities must strike the balance of obtaining the maximum benefit at the lowest possible cost. There are a broad range of control activities such as approval processes, authorizations, verifications, reconciliations, segregation of duties, regular reviews of operating performance and more, designed to prevent or deter the occurrence of an undesirable event.

The inherent challenge in fulfilling the objectives of control activities, whether at the legislative or administrative level, is to understand that excessive use of prevention controls can be costly and impede productivity. This is why the term "tone at the top" is so often used in the context of the control environment.

A cacophony of controls must never be substituted for high expectations of participants and trustful actions. In addition, detection activities, designed to identify undesirable events that do occur, must also be set in place; these work best in an environment of trust where individuals feel safe in alerting management so corrective action can occur promptly.

Audits by the Office of the Comptroller, depending on their purpose and function, will assess and report on control activities. Audit findings will provide a useful reference point for improving control activities in departments, agencies or functions of County government.

V. Monitoring

Monitoring is a process of assessing the quality of performance over time. It helps confirm that the control environment functions well and supports achievement of the County's goals and objectives. Everyone has some level of responsibility for monitoring whether they are elected to their position, serve as staff or a volunteer, or are a member of the public.

The process relies on communicating feedback to management and governance entities concerning the organization's performance relative to established goals and objectives. Monitoring activities involve all levels of staff in evaluating the processes they implement and/or the people they supervise as well as the outcomes that result from their efforts and activities.

The reason for monitoring activities is to determine whether or not the system of internal controls is ensuring that "good things" are happening and "bad things" are not. This process is also necessary for evaluating the challenge noted above with regard to whether or not controls are too excessive, costly and/or impede progress.

As part of its annual budget adoption process, the Legislature has an on-going role in monitoring the economy, efficiency and effectiveness of the activities it funds. For example, the Legislature monitors progress toward its capital plan as part of its strategy for fulfilling capital objectives. Or, it will review demonstrated outcomes of programs it considers reauthorizing.

Establishing standards for and the review of departmental reports are some of ways in which the County Executive monitors quality performance and progress toward outcomes. Another is the process by which the annual budget is developed for presentation to the Legislature. Given that the budget is a financial expression of the County's goals and objectives, the necessary processes of evaluating performance and progress and assessing risk are inherent monitoring opportunities.

The Charter charges the Office of the Comptroller with monitoring responsibilities such as examining, auditing, and verifying records, accounts, departments, programs and functions.

CONCLUSION

This brief overview of internal controls is intended as an introduction to the purpose, concepts and practices of this component of governmental operations and to present the subject matter contextually as it relates to Ulster County's new charter form of government.

In closing, while a healthy and successful organization requires a comprehensive internal control environment, it should not be viewed as a static goal to achieve but as a process that will continually evolve and improve. All participants in the organization should regularly refer to guidance materials on the control environment as part of fulfilling the duty to provide effective County services in an efficient and economical manner.