

“Compliance Roadmap”
Completed by ESD as Support For
Internal Control Certification Report as of
April 30, 2008

**ESD - INTERNAL CONTROL PROGRAM
COORDINATION AND IMPLEMENTATION**

Recommendations	Status	Required Modifications	Pg
1. Each Agency/Authority Head should provide a communication to all staff in support of its internal control program, including the importance of assessing internal controls.	Provided	None	4
2. Internal control programs should include a preliminary risk self-assessment by function.	Done	None	4
3. Internal control programs should include an in-depth assessment of each function and should include the identification of inherent risks and internal controls for each function.	Done	None	4
4. Internal control programs should establish the frequency of reporting cycles for each risk assessment, internal control review, and other internal control reporting documents.	Done as part of Internal Audit's (IA) risk based audit plan of coverage.	None	4
5. Internal control programs should establish an approval or independent review process of the preliminary risk assessments and the more in-depth internal control reviews.	Done	None	5
6. Internal control programs should establish minimum and maximum timeframes for periodically reviewing its organizational structure and its inventory of functions.	IA covers such reviews during its audits of ESD functions, and establishes and executes risk-based audit plans, with greater frequency assigned to higher risk areas.	None	5
7. Internal control programs should establish a process for identifying improvement areas, corresponding corrective actions, and implementation status of all corrective actions.	In lieu of a separate internal control program, internal audits address and test inherent key risks and evaluate related key controls. Related findings are reported; responses required and evaluated; and corrective action adequacy is reviewed. This approach to internal controls review has proven to be effective and sufficient for ESD; separate testing by an internal control unit would be redundant/unnecessary. Many agencies and authorities with IC functions do not also have internal audit functions; as such, ESD deems its coverage to be sufficient and cost-effective.	None	5
8. Internal control programs should establish and maintain documentation standards (what needs to be kept; by whom; where; and for how long).	All retained by Internal Audit	None	5

ESD - INTERNAL CONTROL EDUCATION AND TRAINING

Recommendations	Status	Required Modifications	Pg
1. Agency management should assign staff to one of three training levels: Line Staff, Middle Managers, and Executive Management.	When internal audits are conducted, audited personnel's understanding of internal controls has been considered as part of IA's evaluation process. Training was also made available to middle managers (most of whom have remained in their positions) in 2006. Training levels will be evaluated during fiscal year 2008/2009.	IA will, in conjunction with other areas of ESD, re-assess training levels and needs during 2008-09.	37
2. Agency management should identify training objectives and key concepts (see Appendix), for each level.	Each area assesses its own training needs. Overlaid upon that, IA annually will evaluate the need for additional internal control training.	None	38
3. Agency management should identify methods of delivery and frequency following the recommended framework of quick hitters, instruction-based learning, and executive meetings.	Internal Audit makes control-related recommendations in each audit, as appropriate; where controls need enhancement, this is discussed and agreed upon with auditee management. From an internal controls training standpoint generically, Internal Audit will look to roll out training and/or information in 2008/09 to help reinforce employees' understanding of internal controls and their importance to the organization.	By 3/31/09.	39
4. NYSICA should establish a centralized resource library.	Complete	NYSICA Maintains Updates	40

ESD - INTERNAL AUDIT ORGANIZATION AND STAFFING: ORGANIZATIONAL PLACEMENT AND INDEPENDENCE

Recommendations	Status	Required Modifications	Pg
<p>1. Division of Budget should expand BPRM Item B-350 to:</p> <ul style="list-style-type: none"> a. Require Directors of Internal Audit (DIA) to report on the <i>results</i> of the unit's work to the agency head and the audit committee. b. Require that DIAs report <i>administratively</i> to the agency head or the designated executive deputy (or equivalent position). If the executive deputy has line or staff duties, the DIA should report directly to the agency head. c. Establish a goal of quarterly meetings between the internal auditor and agency executive management/audit committee. d. Require the DIAs to distribute final reports to the agency head/executive deputy, audit committee, auditee and Internal Control Officer (ICO). e. Emphasize the relevance and importance of audit committees. f. Endorse the independence of the internal audit and ICO functions. Establish limitations on internal control activities where those duties overlap. Require agencies to identify any impairments to the independence of the internal auditor/ICO as part of the agency's internal control certification. g. Provide guidance to internal auditors/units regarding the assumption of operating responsibilities, performance of management functions or decision-making, or assumption of other monitoring roles (e.g. ICO or Information Security Officer (ISO)). h. DOB should expand BPRM Item B-350 to require internal auditors to complete an annual independence statement that identifies actual/potential impairments to independence and requires they notify the internal audit director whenever a new actual/potential impairment arises. Similar direction should be included in any other guidance developed for internal audit in NYS government. 	<p>This is the current status.</p> <p>This is the current status.</p> <p>Meetings are scheduled as audit results dictate and as directors are available. 3 to 4 meetings occur annually.</p> <p>This is the current status.</p> <p>This is the current status.</p> <p>This is the current status. Internal Control and Internal Audit are under Director of Internal Audit, for efficiency and cost minimization. I/C impairments are reported to Internal Auditor as part of ESD I/C certification</p> <p>This is the current status.</p> <p>This is the current status. Last year, both staff under IA Director filed annual independence statement and indicated no independence issues.</p>	<p>None</p> <p>For this page</p>	<p>60</p> <p>-</p> <p>61</p>

ESD - INTERNAL AUDIT ORGANIZATION AND STAFFING: ORGANIZATIONAL PLACEMENT AND INDEPENDENCE

Recommendations	Status	Required Modifications	Pg
<p>2. DOB should expand the annual internal control certification process to require information on:</p> <ul style="list-style-type: none"> a. A current agency organizational chart that identifies the placement of the internal audit unit, the individual that has responsibility for overseeing the internal audit activity, and any other organizations/activities that may be under the purview of the internal audit director. b. Information on the existence and composition of an audit committee. c. Identifies any overlap between the duties of the DIA and other responsibilities. d. Details when the last independent review of the agency's internal control certification process was completed and, if applicable, the results of that review. e. Whether internal auditors are required to complete an annual independence statement and, if so, the date those statements were last collected. f. The frequency of meetings held between the internal auditor and agency executive management and the audit committee. g. Agency protocol for distribution of internal audit reports. 	<p>Internal Audit reports directly to the Audit Committees of ESD and JDA, and administratively to the COO. Internal Control oversight is under the audit director's purview. Internal control decisions are the primary responsibility of ESD personnel /departments other than Audit. Audit will evaluate controls and recommend enhancements, but does not decide upon controls to be implemented, to be independent. Committee is comprised of 3 independent directors. See answer to a. above.</p> <p>Not reviewed per se, although ESD's CPA audit firm issued an internal control report with a clean opinion. Done annually, last in 2007.</p> <p>Meetings scheduled as audit results dictate and directors are available. 3 to 4 meetings occur annually. Distributed to executive management, responsible managers and Audit Committee.</p>	<p>(BPRM Item B-350)</p> <p>NONE</p>	<p>60 - 61</p>
<p>3. OSC should give guidance on concepts in recommendation above into its I/C Standards or any other publications developed for I/C or internal auditing in NYS government.</p>	<p>Reviewed by Audit Director as/when issued.</p>	<p>(OSC's IC Standards)</p> <p>NONE</p>	<p>60</p>
<p>4. ICTF should work with Dept. of Civil Service to review the classification of internal audit positions to ensure all internal auditors are sufficiently removed from political pressures and are under a personnel system in which compensation, training, job tenure, and advancement are based on merit.</p>	<p>At ESD, all internal auditors are sufficiently removed from political pressures and under a personnel system in which compensation, training, job tenure, and advancement are based on merit.</p>	<p>NONE</p>	<p>61</p>

ESD INTERNAL AUDIT ORGANIZATION AND STAFFING: AUDIT DIRECTOR QUALIFICATIONS

Recommendations	Status	Required Modifications	Pg
1. DOB should adopt minimum and preferred qualifications in BPRM Item B-350 for Director of Internal Audit positions.	IA Director is a CPA with over 25 years of audit management / director experience.	None	71
2. DOB should clarify its role in approving individuals as Directors of Internal Audit.	IA Director in position since 2003.	None	71

ESD INTERNAL AUDIT ORGANIZATION AND STAFFING: AUDIT STAFFING

Recommendations	Status	Required Modifications	Pg
<p>1. Internal Control Task Force (ICTF) should:</p> <p>a. Work with agencies identified in the table in this section to assess their internal audit staffing needs and identify plans to meet those needs.</p> <p>b. Publish guidance on using risk assessments to estimate total staff needs.</p> <p>c. Identify methods to provide audit coverage at other agencies, including:</p> <ul style="list-style-type: none"> • Coordinate the efforts of internal audit units statewide; • Host an internal audit website; and • Help agencies improve staff productivity by providing assistance in procurement, deployment and use of database audit management tools and Computer Assisted Audit Techniques (CAATs). <p>d. Encourage professional certifications by:</p> <ul style="list-style-type: none"> • Working with the Department of Civil Service to recognize certifications in examination processes; and • Obtaining/subsidizing review materials/courses. <p>e. Work with the Department of Civil Service to:</p> <ul style="list-style-type: none"> • Classify internal audit as management confidential positions statewide; • Create a traineeship for the internal audit title series. Consider establishing an internship program for internal auditing; • Evaluate the potential for transferability between accounting/audit series positions and the internal audit title series. • Develop a compensation scheme and career ladder that is competitive with other accounting and auditing careers in NYS; • Encourage internal audit units to use the internal audit title series. 	<p>Internal Audit assesses annually.</p> <p>See above.</p> <p>Internal Audit Director monitors these developments.</p> <p>Internal Audit Director monitors these developments.</p> <p>Internal Audit Director monitors these developments.</p>	<p>None</p> <p>None</p> <p>None</p> <p>None</p> <p>None</p>	<p>91</p>
<p>2. Agencies should:</p> <p>a. Maintain an inventory of recurring audit projects.</p> <p>b. Report on internal audit staffing as part of an annual internal audit report to agency management (discussed in the independence section of this report).</p> <p>c. Review internal audit staffing levels annually and discuss with agency management the need for any additional internal audit staff.</p>	<p>Done</p> <p>Done</p> <p>Done</p>	<p>OSC I/C Standards</p>	<p>91</p>

**ESD INTERNAL AUDIT ORGANIZATION AND STAFFING
OUTSOURCING, INSOURCING AND SHARED SERVICES**

Recommendations	Status	Required Modifications	Pg
1. Agency Management should consider outsourcing, insourcing, or shared services as a means of providing audit coverage or securing specialized expertise.	Considered and has outsourced selectively in the past.	None	10 6
2. The ICTF should further study agency use of outsourcing to identify opportunities for improving the options currently available, minimizing contract management overhead costs, and developing multi-agency contracts for commonly needed audits.	Internal Audit Director monitors these developments.	None	10 6
3. The ICTF should further study the feasibility of establishing a collective audit approach to provide internal audit coverage for smaller agencies that do not maintain an internal audit unit.	Not applicable	None	10 6

ESD INTERNAL AUDIT PROCESS

Recommendations	Status	Required Modifications	Pg
1. The Director of Internal Audit (DIA) in each agency should periodically develop a risk-based audit plan to determine the internal audit activity priorities, consistent with ESD's goals.	Done	None	116
2. The internal audit activity's plan of engagements should be primarily based on a risk assessment, updated at least annually. The input of senior management and the board (if applicable) should be considered in the process.	Done	None	116
3. In developing the audit plan the DIA should share information and coordinate activities with other internal and external providers of relevant assurance and consulting services to ensure proper coverage and minimize duplication of efforts.	Done	None	116
4. DIA should communicate the internal audit activity's plans and resource requirements, including significant interim changes, to senior mgmt. and Audit Committee for review and approval. DIA should communicate the impact of resource limitations.	Done	None	116
5. The DIA should ensure that internal audit resources are appropriate, sufficient, and effectively deployed to achieve the approved plan.	Done	None	116
6. The DIA should establish policies and procedures to guide the internal audit activity.	Done	None	116
7. DIA should maintain a system to monitor the disposition of audit recommendations communicated timely to management.	Done	None	116
8. The DIA should document the rationale used by internal audit units in deciding which audit recommendations should be followed up on and when, as opposed to recommendations where no follow up will be conducted.	Audit Director's judgment as to which is followed up on and when. Formal reviews conducted as needed.	None	116
9. The DIA should follow up with management to document that audit recommendations have been effectively implemented, or that senior management has accepted the risk of not implementing the recommendations.	See above	None	116
10. The DIA should monitor the disposition of recommendations of consulting engagements to extent agreed upon with the client.	Done	None	116
11. DIA should require each internal audit unit establish a written policy for security and control of audit work papers that, at a minimum, address the following topics: physical control, storage, retention, and release to internal and external parties.	Done	None	116
12. Internal audit units should maintain work paper documentation for each audit and follow-up.	Done	None	117
13. Internal audit units should establish a written policy governing work paper review and approval.	Done	None	117
14. The ICTF should develop a mechanism for internal audit units to create and share standard work paper elements to meet minimum requirements and incorporate best practices.	Will evaluate once done and implement as appropriate.	None	118
15. The ICTF should explore licensing an electronic workpaper package (such as TeamMate) on a statewide basis for use by all agencies.	Have indicated to ICTF the desire to join with this effort.	Implementation actively being looked into.	118

ESD INTERNAL AUDIT CONTINUING PROFESSIONAL EDUCATION

Recommendations	Status	Required Modifications	Pg
1. Agencies should implement a continuing education program which includes all the elements of the New York State Internal Auditor Continuing Education Guidance document.	Continuing education is a recognized need of Internal Audit and audit team members attend courses annually.	None	126
2. DOB and OSC should help to facilitate continuing education and CPE tracking services for NYS Internal Audit Units.	ESD Audit avails itself of such courses when available and pertinent.	None	126
3. DOB should facilitate a NYS Internal Auditor web page to share information.	Refer to NYSICA site as needed.	None	126
4. Agencies should share best practices for in-house systems for tracking CPEs.	ESD has an in house system to track CPE.	None	126

ESD INTERNAL AUDIT PEER REVIEW

Recommendations	Status	Required Modifications	Pg
DOB should coordinate a cooperative, interagency external assessment approach for peer review.	ESD will look to have a peer review conducted in 2008/09, as priorities permit.	None	148