

Ulster County
Office of the Comptroller



INTERNAL CONTROLS BASELINE REPORT

A Survey of Ulster County Government's
Compliance with the
New York State Standards of Internal Control

Elliott Auerbach
Comptroller

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Introduction

Background Information:

In October 2007, the New York State Comptroller issued *Standards for Internal Control in New York State Government*, based on the passage of The New York State Governmental Accountability, Audit and Internal Control Act of 1987. This act requires state agencies and other organizations to promote and practice good internal control and to provide accountability for their activities. In 1999 the State Legislature made this act permanent and amended State Finance Law requiring the State Comptroller to issue internal control standards for state agencies and other organizations. Furthermore, the Standards for Internal Control in New York State Government states:

“All organizations subject to audit by the Office of the State Comptroller are expected to adhere to these standards, and will be evaluated accordingly in any audits that are performed by that Office.”

Ulster County is subject to audits by The New York State Comptroller’s Office and therefore is subject to this legislation. Furthermore, in accordance with §A9-2(G) of the Ulster County Charter, the County Comptroller is vested with the authority as he or she determines necessary or appropriate, to audit any department, program or function of County government to assess the degree to which its operation is economical, efficient and/or effective.

Objective:

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 to undertake a baseline analysis of the existing internal control environment within Ulster County government. The findings and recommendations of the analysis were intended to:

1. Establish a baseline of internal control 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.

Scope and Methodology:

A survey instrument designed to address the five (5) key areas identified in the State Comptroller’s Standards for Internal Control Report (control environment;

risk assessment; control activities; information and communications and monitoring) was selected.

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

We sent the survey to all thirty-six (36) departments on December 17, 2008 with the directive that they be answered by department managers and necessary senior staff within the department and be returned no later than January 9, 2009. Of the thirty-six (36) survey’s sent out, thirty-six (36) responses were received back from thirty-two (32) departments. Also, one of the responses we received did not indicate from which department it was returned, however we included the results in the survey.

Within each of the five internal control areas five to twenty-five general questions were posed. Each question asked for one the following responses: Yes, No, Don’t Know or Room For Improvement. We note that some surveys had hand written answers such as “yes and no” or N/A and we have added these responses to the survey summary. Questions not answered were classified as N/A.

We restricted our survey to the primary government units reported in the County’s Comprehensive Annual Financial Report (CAFR) which consists of all county departments plus the Golden Hill Health Care Center. We did not send the survey to the following three component units as they have separate boards which operate their activities: Ulster County Community College; The Ulster County Resource Recovery Agency; The Ulster County Industrial Development Agency

We note that the CAFR for the fiscal year ended December 31, 2007 reported that the primary government units reported cash on hand of approximately \$60,653,415 and net capital assets of approximately \$197,332,235 which consists of land, construction work in progress, buildings & improvements, machinery & equipment, infrastructure (roads, bridges, sidewalks, street lights, etc) minus total accumulated depreciation.

The responses were tabulated and are presented in this report. Conclusions and recommendations derived for the survey analysis are based on how respondents answered the questions. No forensic or fieldwork was conducted.

Summary Conclusions:

Most importantly, survey responses indicate that an internal control environment exists. While the range of responses indicates there is room for improvement across all aspects of internal control, we are pleased to document this finding.

It is also notable that, with one exception, respondents indicate there is a management philosophy and style rooted in high expectations regarding integrity and ethical values. This is an essential fundamental, a positive 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.

Room for improvement is indicated in almost every aspect of Ulster County’s internal control system and we recognize this as an opportunity at this watershed period for County government. The application of internal control is dynamic often requiring change as circumstances change. We now know that past practices in Ulster County government need to be adjusted.

The survey tabulations are provided in Appendix 1 and specific recommendations in Appendix 2.

Summary Recommendations:

We recommend that County personnel at all levels review the recent report issued by this office *Ensuring ‘Good Things’ Happen and ‘Bad Things’ Don’t* and then review this report. Responsibility for the County’s internal control system rests with everyone, not just elected and management-level leaders.

We recommend that individuals at the leadership level focus on creating a culture of internal control, one built on trust and that fosters ownership among all participants. The foundation exists, the construction material is education.

We recommend the County Executive develop a continuing education program for staff at all levels of service designed to disseminate information essential to understanding internal control and to engage participants in continuous improvement of internal control implementation.

We recommend the County Legislature adopt ‘whistle blower’ legislation to promote a systemic approach to communicating suspected improprieties while assuring the complainant is protected from retaliation.

We, the Office of the Comptroller, have committed to initiate progress on these fronts and have arranged with New York State Comptroller DiNapoli to provide an orientation training on the scope and implementation of internal control activities.

APPENDIX 1

SURVEY TABULATION

Control Environment

Integrity & Ethics

| Question | Yes | No | Don't Know | Room for Improvement | N/A | Yes/No |
|---|-----|----|------------|----------------------|-----|--------|
| Does your management philosophy and style communicate high expectations regarding integrity and ethical values? Are your directives and actions consistent with these expectations? | 37 | | | 1 | | |
| Is the organizational structure in your area clearly defined? | 35 | | | 3 | | |
| Are human resource policies clearly communicated to your personnel? | 29 | | 2 | 7 | | |
| Have all important expectations or policies been formalized and communicated to your personnel? | 29 | | 1 | 8 | | |
| Do you expect full compliance with laws, regulations and policies? | 38 | | | | | |
| Are the number of requests to approve exceptions to established policy kept to a minimum? Are such approvals always documented? | 31 | | 3 | 1 | 2 | 1 |

Human Resource Management

| Question | Yes | No | Don't Know | Room for Improvement | N/A | Yes/No |
|--|-----|----|------------|----------------------|-----|--------|
| Are realistic performance objectives set for your personnel? | 31 | 1 | | 6 | | |
| Are job descriptions accurate and up to date? Do they include all major expectation? | 24 | 2 | | 11 | 1 | |
| Do your personnel have the knowledge and skills required for their position? | 34 | | | 4 | | |
| Do you provide adequate training for all categories of personnel? | 29 | 1 | | 8 | | |
| Is employee turnover in our area at an acceptable level? If turnover is excessive, do you know the root cause? | 37 | 1 | | | | |
| Are your employees appropriately empowered and given adequate resources to fulfill their responsibilities? | 32 | 1 | | 4 | | 1 |

Department Accountability & Reporting Standards

| Question | Yes | No | Don't Know | Room for Improvement | N/A | Yes/No |
|--|-----|----|------------|----------------------|-----|--------|
| Are accounting and budgeting activities an integral part of your decision making process? | 34 | 3 | | 1 | | |
| Do management reports tell the whole story? Are they timely and do they raise "red flags" where appropriate? | 23 | 3 | 3 | 8 | 1 | |

Assessing and Managing Risk

Setting Department Objectives

| Question | Yes | No | Don't Know | Room for Improvement | N/A | Yes/No |
|--|-----|----|------------|----------------------|-----|--------|
| Have Department objectives been established? | 32 | | | 4 | 2 | |
| Have activity -level objectives been established? | 25 | 5 | | 4 | 4 | |
| <ul style="list-style-type: none"> Are there documented objectives for all key activities? | 23 | 3 | | 7 | 5 | |
| <ul style="list-style-type: none"> Do they include statements of purpose regarding operations, reporting and compliance? | 22 | 5 | 1 | 5 | 5 | |
| <ul style="list-style-type: none"> Are they realistic and consistent with past practices and performance or with relevant benchmarks? | 26 | | 2 | 4 | 6 | |
| <ul style="list-style-type: none"> Are they periodically reviewed and updated? | 24 | 1 | 1 | 8 | 4 | |
| <ul style="list-style-type: none"> Do they include measurement criteria? | 17 | 6 | 3 | 7 | 5 | |
| Have the activity-level objects been prioritized? | 24 | 4 | | 6 | 4 | |
| Were all employee levels represented in establishing the objectives? | 21 | 6 | 1 | 5 | 5 | |

Assessing and Managing Risks Associated with Department Objectives

| Question | Yes | No | Don't Know | Room for Improvement | N/A | Yes/No |
|---|-----|----|------------|----------------------|-----|--------|
| Have risks or obstacles to achieving each objective been identified? | 21 | 3 | 2 | 6 | 6 | |
| <ul style="list-style-type: none"> Were risks from external sources (suppliers, technology changes, economic and political conditions, regulations, etc) adequately considered? | 23 | 5 | 1 | 5 | 4 | |
| <ul style="list-style-type: none"> Were risks from internal sources (employee turnover, morale and commitment to objectives, performance of information systems, etc.) considered? | 24 | 2 | 1 | 6 | 5 | |
| Were risks prioritized? | 18 | 6 | 2 | 6 | 6 | |
| <ul style="list-style-type: none"> Was there an evaluation of the likelihood of occurrence? | 19 | 7 | 1 | 4 | 7 | |
| <ul style="list-style-type: none"> Has the potential monetary impact been estimated? | 14 | 9 | 3 | 4 | 8 | |
| <ul style="list-style-type: none"> Have the risks been categorized as (a) tolerable or (b) requiring action? | 17 | 6 | 2 | 4 | 9 | |
| Were appropriate levels of management involved in analyzing risks? | 24 | 3 | 1 | 4 | 6 | |
| Have overall strategies for managing important risks been established? | 18 | 4 | 2 | 7 | 7 | |
| Have specific assignments and activities necessary to implement the strategies been identified and communicated to the responsible employees? | 27 | 2 | 1 | 3 | 5 | |

Control Activities

General Controls

| Question | Yes | No | Don't Know | Room for Improvement | N/A | Yes/No |
|--|-----|----|------------|----------------------|-----|--------|
| Do you and your employees evaluate performance with regard to established objectives? Are there evaluations based on previous agreed upon standards? | 32 | 1 | | 4 | 1 | |
| Are all new programs or activities formally authorized in advance? | 32 | 1 | 1 | 4 | 1 | |

Financial Reporting Controls

| Question | Yes | No | Don't Know | Room for Improvement | N/A | Yes/No |
|--|-----|----|------------|----------------------|-----|--------|
| Are you currently operating with budget? Did you complete last year within budget? | 37 | | | | 1 | |
| Are important financial and operating reports routinely reviewed and shared with your key personnel? | 37 | 1 | | | | |
| Are key reconciliation reports prepared and reviewed? | 28 | 2 | 3 | 4 | 1 | |
| Do you or your key managers review and approve all financial transactions? | 35 | 2 | | | 1 | |

Physical Asset Controls

| Question | Yes | No | Don't Know | Room for Improvement | N/A | Yes/No |
|---|-----|----|------------|----------------------|-----|--------|
| Do you track the location and use of all equipment and property? Is missing equipment investigated? Are there additional controls for equipment checked out to individuals or taken off site? | 33 | 2 | | 2 | 1 | |
| Are individuals who control assets prohibited from also recording transactions related to those assets? For example, is the cashier not allowed to handle record keeping for accounts receivable? | 23 | 5 | | 1 | 9 | |
| Do you provide adequate physical security for cash and other assets subject to theft? | 33 | 1 | | | 4 | |
| Do you provide adequate guidance and training for personnel who have responsibility for cash and similar assets? | 27 | 2 | | 3 | 6 | |

Information and Communication

General Information and Communications

| Question | Yes | No | Don't Know | Room for Improvement | N/A | Yes/No |
|--|-----|----|------------|----------------------|-----|--------|
| Do you receive relevant information regarding legislation, regulatory developments, economic changes, or similar external factors that may affect your organization? | 31 | | | 7 | | |
| Is key information about your organization's operations identified and regularly reported? | 30 | 3 | | 4 | 1 | |
| <ul style="list-style-type: none"> • Do managers receive sufficient information to carry out their responsibilities? | 29 | 1 | | 4 | 4 | |
| <ul style="list-style-type: none"> • Is the information understandable and usable? | 31 | | | 3 | 4 | |
| <ul style="list-style-type: none"> • Is the information available in a timely manner? | 29 | 1 | | 4 | 4 | |
| Is there a means for you to identify emerging information needs? | 27 | 5 | 2 | 1 | 3 | |
| Are plans for the effective use of information technology developed and linked with strategic initiatives? Are the plans consistent with available resources? | 21 | 4 | 1 | 9 | 2 | 1 |

Staff and Personnel Information and Communications

| Question | Yes | No | Don't Know | Room for Improvement | N/A | Yes/No |
|---|-----|----|------------|----------------------|-----|--------|
| Are training, meetings, seminars, on-the-job supervision sufficient to communicate to the employees their duties and responsibilities? | 30 | 2 | | 6 | | |
| Is there a way to communicate suspected improprieties upstream through someone other than a direct supervisor? Is the complainant protected from retaliation? | 30 | 3 | 1 | 2 | 2 | |
| Is trust actively promoted between employees, supervisors and departments? | 31 | 1 | 1 | 5 | | |
| Are employees encouraged to provide recommendations for improvement? Are they recognized or rewarded for suggestions? | 31 | 2 | | 3 | | 2 |

Interested Outside Party Information and Communications

| Question | Yes | No | Don't Know | Room for Improvement | N/A | Yes/No |
|---|-----|----|------------|----------------------|-----|--------|
| Have you communicated your organization's standards and expectations to key outside groups or individuals? | 29 | 4 | 1 | 1 | 2 | 1 |
| Are client complaints taken seriously, investigated, and acted upon? | 34 | | 1 | 1 | 1 | |
| <ul style="list-style-type: none"> • Is there follow-up communications with the complainant? | 30 | | 1 | 4 | 3 | |
| <ul style="list-style-type: none"> • Is management aware of the nature and volume of complaints? | 31 | | 1 | 3 | 3 | |

Monitoring

Monitoring Control Environment

| Question | Yes | No | Don't Know | Room for Improvement | N/A | Yes/No |
|--|-----|----|------------|----------------------|-----|--------|
| Do you routinely evaluate the overall effectiveness of your internal control systems? | 28 | 2 | | 8 | | |
| <ul style="list-style-type: none"> • Do you assess employee attitudes? | 30 | | | 6 | 2 | |
| <ul style="list-style-type: none"> • Do you review your organization structure for effectiveness? | 33 | | | 5 | | |
| <ul style="list-style-type: none"> • Do you review and evaluate policies and procedures? | 32 | | | 4 | 2 | |

Monitoring Risk Assessment

| Question | Yes | No | Don't Know | Room for Improvement | N/A | Yes/No |
|--|-----|----|------------|----------------------|-----|--------|
| Do you periodically evaluate the effectiveness of your risk assessment procedures? | 22 | 6 | 1 | 5 | 4 | |

Monitoring Control Activities

| Question | Yes | No | Don't Know | Room for Improvement | N/A | Yes/No |
|---|-----|----|------------|----------------------|-----|--------|
| Do you regularly monitor the effectiveness of key control activities? | 27 | 3 | 1 | 4 | 3 | |
| <ul style="list-style-type: none"> • Do you spot-check transactions, records and reconciliation reports to ensure they meet your expectations? | 26 | 1 | 1 | 5 | 5 | |
| <ul style="list-style-type: none"> • Do you randomly compare assets on hand (cash, inventories, etc...) to recorded amounts and investigate discrepancies? | 22 | 2 | 1 | 5 | 8 | |

Monitoring Information and Communications

| Question | Yes | No | Don't Know | Room for Improvement | N/A | Yes/No |
|--|-----|----|------------|----------------------|-----|--------|
| Are all information and communication systems periodically evaluated for accuracy, timeliness and relevance? | 23 | 2 | 1 | 7 | 5 | |
| <ul style="list-style-type: none"> • Do you question financial and management reports that appear unusual or inconsistent? | 36 | | 1 | | 1 | |
| <ul style="list-style-type: none"> • Does management encourage employees to provide feedback on whether controls operate effectively? | 32 | | 1 | 2 | 3 | |
| <ul style="list-style-type: none"> • Are there performance evaluations, at least annually, where employees and supervisors discuss expectations, goals and performance? | 28 | 1 | 1 | 7 | 1 | |

APPENDIX 2

Specific Recommendations

Control Environment

The control environment is the foundation for all other components of the internal control structure. It contains the underlying structure which allows all areas of the organization to function effectively. It embodies the philosophy, style and supportive attitude of the individuals involved as well as their competence, ethical values, integrity and morale. It starts with the highest ranking individual within the organization and flows down throughout the rest of the organization. Some of the criteria for this area are:

- Integrity and ethical values of managers.
- Operating style and attitude of managers.
- The structure and means of assigning authority and responsibility.
- How managers exercise control.
- Competence and reliability of those who work in the organization.
- Influences from outside sources.

Control Environment Recommendations:

1. A management philosophy and style regarding integrity and ethical values is the foundation of internal control and the standards behavior it sets form the framework for employee conduct. **We recommend** continued commitment and focus in this regard.

2. For those departments that identified “room for improvement” in formalizing and communicating important expectations and policies, including human resource policies, **we recommend** they set aside time to work on establishing policies and communicating expectations to their staff. Management’s effective communication of values and expectations guide the decisions and actions of employees.

3. To assure conformance with professional standards and consistency in practices, **we recommend** a County-wide effort to develop among managers an understanding of the importance of noting, documenting, and keeping to a minimum exceptions to established policy.

Management is responsible to ensure the competency of its employees. This requires policies and procedures that address significant activities and unique issues as well as performance standards, control procedures and reporting relationships. Ensuring the competency of employees also requires a commitment to continuous improvement including training and education that help employees increase their knowledge and skills.

4. **We recommend** that departments work with appropriate county personnel to review employee job descriptions to make sure they are up to date, emphasize the major expectations of the positions, and set realistic performance objectives.

5. **We recommend** that the County Executive work with the departments to provide training and education programs for employees. *We note that an initiative is currently being studied by the Office of the Executive to assess training needs across departments.

While financial reporting may primarily fall under the department responsible for the government’s overall financial function, individual departments provide essential information in producing reliable financial reports. Regular review by departmental managers of financial reports on their department’s actual activity versus the adopted budget is a tool to determine whether departmental operations are being kept within budgeted appropriations.

6. **We recommend** that each department review their current accounting and reporting activities to determine if the reports they generate and receive meet their management-level information needs, including timeliness and report parameters that clearly demonstrate “red flags” where appropriate.

7. If reports do not meet their needs, **we recommend** managers develop a framework which describes the types of information and data they need, then discuss these needs with appropriate personnel to assure the reports they receive are adequate to meet their analysis needs.

Assessing and Managing Risk

Risks arise from both internal as well as external sources therefore it is paramount that all organizations identify risks to achieving its goals and objectives, analyze the risks, then decide how or if to respond. By identifying what risks exist along with their significance, managers are in a better position to limit risks and maximize limited resources. Unidentified risks can cause an organization to not meet their goals and objectives. In order to perform this task, managers must:

- Clearly identify goals and objectives.
- Understand the economic, social and political environment within which that they operate.
- Understand that their operating decisions and business practices will create certain risks for the organization.
- Realize that risks apply to their physical resources, customers, employees and taxpayers being served by the organization as well as their financial condition.

Risk Recommendations:

A focused assessment of risks is best achieved when there is a written mission statement and written goals and objectives that are periodically reviewed and updated. The objectives become key indicators against which unfavorable events that “risk” achievement of the objective are determined, then evaluated.

We recommend departments:

8. Develop and/or review, with all employee levels represented, a written mission statement with goals and baseline objectives toward achieving those goals.

9. Establish criteria for measuring progress against goals and objectives in both financial and non-financial terms. For instance, number of staff days allocated versus actual days spent on cases; number of machine hours between maintenance and repairs; number of applications completed per day/week/month, days between work order received till work order completed, etc.

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.

We recommend that all departments:

10. Receive training on the process and practices of risk assessment and risk management.

11. Conduct a risk analysis to identify any risks (occurrences that would hinder success) to achieving departmental objectives followed.

12. Determine whether to accept the risk in a given situation, prevent or reduce the risk, or avoid the risk entirely.

13. Employees should be familiar with departmental objectives and how to manage or avoid the risks that might prevent their achievement.

14. Reviews and updates of departmental objectives and risks should occur on a regular basis and any time a risk situation has occurred.

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|---------------------------|
| Control Activities |
|---------------------------|

Under control activities, management needs to ensure that controls are in place to provide for effective and efficient operations as well as to provide for accountability of resources being used to accomplish the organizations goals and objectives. Hence, management should put into place those activities which will best detect and prevent identified risks. Control activities include:

- Written policies and procedures for authorizing and approving transactions.
- Documenting transactions, events and decisions which will allow for the review of such activity at a later date.
- Having procedures in place to prevent loss of assets due to pilferage, deterioration and obsolescence.

- Maintaining proper segregation of duties so no one individual controls an entire process.
- Having in place both preventive types of controls as well as detective types of controls.
- Establishing program goals and objectives (benchmarks) for all major activities.
- Managing human capital via retention practices, training, skill level assessments and work incentives.
- Establishing quantitative and qualitative standards for employee performance.
- Providing sufficient supervision to ensure employees meet performance standards.

Control Activity Recommendations:

Reporting serves as a control when it provides information on issues such as timely achievement of goals, budget status and employee concerns. Reporting also helps to promote accountability for actions and decisions. To ensure the integrity of financial transactions, reports should be reviewed and approved by personnel not involved with creating the transaction. By separating key tasks and responsibilities, management can reduce the risk of error, waste, or wrongful acts.

17. **We recommend** that departments prepare and review key reconciliation reports. Managers should review financial reports and, as necessary and appropriate, reconcile those reports against data sources to insure that the financial reports they receive and rely upon are accurate and complete.

18. **We recommend** that all departments maintain, at all times, proper segregation of duties.

Control over physical assets requires that every department have a system in place to track the whereabouts of all department assets at all time. Furthermore, no single person should have both physical control over assets and the ability to record transactions concerning those assets at the same time.

19. **We recommend** that all department managers receive training to reinforce the concepts and conduct of physical asset control to assure consistency in the internal control system over departmental assets. Every department should have a system of physical control over assets in place and be able to track the whereabouts of all department assets at all times.

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| Information and Communication |
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In order for information to be relevant to the organization's goals and objectives, information must be timely, accurate and complete. To accomplish this, lines of communication must be able to flow up, down, across and in and out of the

organization. To complicate this matter, today's computer environment makes it much easier to end up with information overload. The challenge for management is to:

- Have an effective and efficient means to convey the organization goals and objectives to staff and for staff to convey to management problems and successes on a current and ongoing basis. It is also important to maintain communication links with those interested parties outside of the organization.
- Get the right information to the right people at the right time so they can tell if they are meeting the organization's goals and objectives.
- Ensure that sufficient and proper general and application controls are in place over all computerized systems and software in order to minimize risk pertaining to disruption of business activities which could result in potential losses.

Information and Communication Recommendations:

Strong communication practices are important because getting the right information to the right people at the right time affects how individuals make decisions and how they coordinate their activities.

20. **We recommend** that managers whose current reporting structure does not provide them with the necessary information to oversee their department seek out assistance with developing reports that will give them the information they need to effectively and efficiently run their departments.

21. Furthermore, leadership training and cross departmental dialog is **recommended** to identify emerging information needs as a key component of planning for the future and for risk assessment purposes.

We recommend that:

22. Departments review and improve, as necessary, staff training. Within this context, the County has the opportunity to improve trust between staff and management as well as to create a practical understanding for each employee his or her role within the system of internal control

23. A systemic approach to communicating suspected improprieties in a manner that can assure results and protect the complainant from retaliation be developed.

Communication with customers, suppliers, regulators and other outside parties is an essential element of effective internal control. It helps outside interested parties better understand the department's priorities. Standard

procedures for handling client complaints contribute to the control environment by identifying and mitigating potential risks.

We recommend that departments implement:

24. Written policies and procedures that specify the manner in which information will be shared with outside interested parties.

25. Standard operating procedures for documenting complaints, their outcomes and the communication of that outcome to the parties involved.

Monitoring

Monitoring is the process whereby end users have a means of communicating feedback to management and oversight entities concerning the organization's performance relative to established goals and objectives. This task is accomplished through ongoing management/supervisory activities as well as reviewing current internal control systems. In order to ensure that the monitoring systems put in place are actually working as intended, management needs to ensure that:

- The overall control environment does not contain weaknesses which could lead to a lack of employee efficiency or their ability to override controls, ineffective performance results, theft, favoritism or other abuses.
- Performance standards are periodically evaluated to ensure controls are still adequate and that the organization is protected against financial loss.
- Management and staff have proper and sufficient ongoing training to ensure that controls are known, understood and being followed.

Monitoring Recommendations:

26. As a means to provide reasonable assurance that a department is functioning properly and others can rely on the output from that department, **we recommend** each department routinely evaluate of the overall effectiveness of its internal control system, including assessment of employee attitudes, review of organizational structure for effectiveness, and evaluation of policies and procedures.

27. To facilitate detection of new risks as well as to reassess known risks and, thereby protect county owned assets at risk for loss or misuse, **we recommend** that departments undertake periodic evaluations of the effectiveness of their risk assessment procedures.

28. **We recommend** that departments catch variances, errors or omissions before they become major issues by regularly monitoring the effectiveness of key control activities. This can include testing sample transactions to identify if key control activities may need to be amended, added or deleted depending on the

circumstances. Monitoring can also include random comparisons of assets on hand (cash, inventories, etc.) to recorded amounts followed by investigation of any discrepancies.

29. Communication affects every aspect of an organization's operations and the feedback from this communication network can help management maximize the exchange of useful information. **We recommend** that departments monitor their information and communication systems for accuracy, timeliness and relevance.