NASSAU COUNTY
OFFICE OF THE COMPTROLLER

HOWARD S. WEITZMAN
Comptroller

CONTROL DIRECTIVE 2: INTERNAL FINANCIAL CONTROLS

A. Introduction

This Directive, applicable to all county departments, is issued pursuant to the Nassau County Charter. The Charter authorizes the County Comptroller to, *inter alia*, "supervise all accounts…required for purposes of administrative direction and financial control" and "prescribe the form of…any accounts or records of financial transactions which may be maintained by any department, institution, office, or agency of the county apart from, or subsidiary to, the general accounts."[1]

This directive provides standards and guidelines concerning internal control measures necessary for the financial integrity of the county's accounts and other financial records, including measures to ensure (1) efficient, economic and effective financial operations, (2) accurate financial reporting, and (3) compliance with related laws and regulations.

An effective system of internal controls, including controls to ensure funds are spent in compliance with applicable laws, regulations, managerial policies and procedures, to safeguard assets, and to check the accuracy and reliability of accounting data and financial reporting; will provide financial accountability for programs and operations by measuring whether they meet established goals and objectives.[2]

B. Internal Financial Control Requirements

To ensure a well-managed environment for county financial operations, each county department must maintain a proper system of internal controls. County department heads should request assistance and guidance from the Deputy County Executive for Compliance and the Comptroller's Office, if needed, in the establishment of these controls. The Comptroller's Field Audit Unit examines internal financial controls as part of its regular audit cycle.

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[1] Nassau County Charter §401 (1), (7) (1999).
[2] Governmental Accountability, Audit & Internal Control Act, 1999 N.Y. Laws 510; 1987 N.Y. Laws 814.

The following are ***MINIMUM*** internal financial controls to be maintained by county departments:

Funding of Department Operations & Programs:
On an annual basis, each county department should identify and document the programs and operations it is legally required to fund, and where not so required, the county department should indicate the authority for the funding of programs and operations.

Organization Chart:
Each county department must maintain a current organization chart that delineates the functions, authority and accountability relationships among managers, supervisors and other staff.

Policies and Procedures:
Departments should document their policies and procedures in an operating manual. The manual should include financial control measures, and be easily accessible to staff. Departments must convey to staff the importance and seriousness of such measures.

Example: Departments should document policies and procedures specific to their financial operations. Department policies and procedures should address how department financial and related functions are carried out.

Segregation of Duties
Departments must assign staff duties so that the possibility of fraud, inefficiency, and human error is minimized, and to avoid overlap and conflict of interest. Department heads must identify incompatible duties and redistribute them, as well as key tasks, among employees. Management should identify those areas where it does not consider segregation of duties cost effective, and monitor those areas frequently.

Example: One person should not be responsible for cash collection, bank deposits, recording transactions into NIFS and reconciling cash balances to bank statements. Similarly, different employees must conduct the purchase, inventorying, recording, and the distribution of tangible assets.

Staff duties periodically should be rotated. When staff members are on leave (i.e. vacation, sick, jury duty, etc.), other department members should perform their work. Ongoing errors and irregularities may be identified through this process.

Safeguarding of Assets
Security measures must be implemented to restrict access to valuable physical and intangible (such as receivables) assets. Access must be limited to authorized personnel, and accountability measures and activities should be utilized to monitor access (e.g. reconciliations, inventory counts). Departments should make certain (through cost-benefit analysis) that control measures are sufficient to protect assets.

Example: Physical assets such as cash, checks, computer hardware/software, vehicles, supplies and equipment should be inventoried and maintained in a secure location.

Access should be limited to assigned custodians. Any distributions must be authorized, documented and entered into NIFS.

Employees other than custodians or record keepers should reconcile inventory periodically. In the case of cash and/or checking account reconciliations, bank statements and NIFS asset balance records should be used as part of the reconciliation process.

Uncollected / receivable accounts (such as unpaid traffic violation and parking tickets, etc.) must identify due dates On a regularly scheduled basis, information about past due uncollected accounts should be given to the county attorney for a determination as to whether legal or other action should be instituted to aid in collection.

Supporting Documentation/Audit Trail
Mechanisms must be established to document/substantiate decisions, transactions and systems, and to ensure that a transaction's entire life cycle is recorded.

Example: Requests for the disbursement of funds pursuant to a contract or otherwise must be documented and properly authorized. Specifically, requests for disbursements should be supported with an authorized payment request voucher (including purpose of transaction), and original invoice/receipt or contract payment schedule (when repeated payments are made). Disbursements must be in accordance with budgetary requirements.

Approval/Authorization
Management should establish clear and documented approval paths necessary to confirm or sanction decisions or transactions. In establishing approval paths, management should consider the level of risk to which the department is exposed by the decisions or transactions, and necessary legal requirements. No employee should assume any approval/authorization that has not expressly been granted by his/her superior. Additionally, subordinates should not approve transactions executed by their superiors. Transactions should be reviewed and approved by an employee with superior authority to the employee executing the transactions.

Management should ensure that employees are aware of and comply with approval requirements, and that decisions and transactions are initiated and executed by appropriate employees.

Example: A manager may be authorized by his/her superiors to approve purchase requests, but only up to a specified dollar amount. Authorization levels should be documented and distributed to the appropriate departments that will be utilizing it for executing transactions.

Supervision/Monitoring
Departments should ensure adequate staff supervision to allow for accurate transactions, minimal errors and waste, the achievement of operational and programmatic objectives, and employee understanding of management directives.

Example: Management should have mechanisms in place to review transaction process results, and should frequently review operational summary and performance measurement reports that highlight actual results to goals, statistics and exceptions.

Segregation and Management of Accounts/Transactions utilizing non-county funds
Various departments are charged with executing federally or state sponsored and/or mandated programs. As such, those departments must conduct transactions in accordance with the federal and state program regulatory requirements. County and federal and/or state sponsored program transactions, such as contracting, purchasing, and disbursements, should be accounted for separately, and separate accounting records should be maintained for future independent review.

Example: Management should regularly review the detailed transactions of federal and/or state sponsored programs to ensure that they are in compliance with regulatory requirements objectives, and that any non-NIFS accounting records are reconciled with banking records.

Compliance with Countywide Operational Directives, Policies and Procedures
Departments should ensure staff complies with applicable county administration and comptroller (see ***http://www.co.nassau.ny.us/comptroller/index.html***) directives, policies and procedures, including but not limited to policies and procedures concerning financial management, budgeting and encumbrances, procurement, personnel, and time and leave.

C. Self-Assessment of Internal Control Systems

Departments should conduct self-assessment reviews of their operations frequently to detect problems early, and minimize costs that could be incurred if problems continue until detected by independent audits.

Department managers should address the following questions as part of self-assessment reviews:

- Are the legal requirements and authority for the department's operations and programs documented and understood by all staff members?
- Is an organization chart formally and clearly documented, up to date and accessible to staff and others (i.e., auditors, regulators, legislators, etc.)?
- Are the department's policies and procedures documented and up to date? Are they accessible to staff and others? Do the policies and procedures outline the department's control activities? Do the control activities foster the department's objectives while minimizing risk?
- Does the department have a means to identify and manage risk and to monitor control activities and outcomes regularly?
- Are staff duties properly segregated so that the possibility of fraud, inefficiency, and human error is minimized? Where staffing is minimal, are staff duties periodically rotated? When employees are on leave (i.e. vacation,

sick, jury duty, etc), do other department members perform the work of the absent member?

- Are physical and intangible assets properly safeguarded and recorded and periodically reconciled? Are sufficient efforts made to collect outstanding receivables such as unpaid traffic and parking violation tickets? Is the county attorney informed about delinquent accounts?
- Are the department's daily transactions properly documented? Does the documentation cover the transaction's life cycle (e.g., initiation, various authorization levels, final execution (receipt of service for payment)? Are the transactions properly recorded on the county's accounting system?
- Have authorization requirements for department decisions, operations and/or transactions been outlined, documented and communicated to the necessary parties?
- Does Management adequately monitor departmental activity? Is operational summary reporting available? Is Management actively monitoring financial activity to established budgets?
- If the Comptroller's office or other authorized entity (e.g. the county's external auditors or regulators) audited the department, has the department properly addressed all audit recommendations and furnished a corrective action plan to the Comptroller's Office for review within the specified time period? If procedures were changed and updated as a result of the audit, have the new procedures been disseminated to department staff and are they being followed?
- Is the department adhering to countywide directives, policies and procedures, where applicable?