



Minnesota Management & Budget Statewide Operating Policy

Minnesota Management and Budget, Internal Control & Accountability
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Internal Control System

Objective

To create an internal control system that helps ensure the state's ability to meet its mission, goals and objectives, and ensures compliance with [Minnesota Statute 16A.057](https://www.revisor.mn.gov/statutes/?id=16A.057) (<https://www.revisor.mn.gov/statutes/?id=16A.057>).

Internal control includes the plans, methods, policies, and procedures used to further the agency's mission, strategic plans, goals and objectives. An effective system of internal controls provides reasonable assurance that agencies will achieve their objectives, increases the state's operational effectiveness and efficiency, safeguards public funds, ensures compliance, and minimizes fraud, waste, and abuse.

Policy

General

Every State of Minnesota employee is responsible for internal controls, including:

1. Performing assigned internal control activities;
2. Complying with all policies and procedures, laws, rules, and regulations relating to their jobs; and,
3. Reporting significant internal control deficiencies to their supervisors and/or through designated agency communication channels.

Each executive branch state agency head is responsible for designing, implementing, and maintaining an effective system of internal controls within his or her respective organization. The internal control system must:

1. Safeguard public funds and assets, and minimize incidences of fraud, waste, and abuse;
2. Ensure programs are administered in compliance with federal and state laws and rules;
3. Provide for risk assessment and periodic evaluation of control activities;
4. Maintain documentation of existing control activities; and
5. Satisfy the Minnesota Management & Budget (MMB) commissioner that the internal control system is adequately designed, properly implemented, and functioning effectively.

The MMB commissioner, through the Internal Control and Accountability Unit, is responsible for coordinating the design, implementation, and maintenance of an effective system of internal controls across the executive branch (excluding the Minnesota State Colleges and Universities System). This responsibility includes:

1. Establishing internal control standards and policies;
2. Monitoring Office of Legislative Auditor (OLA) audits;

3. Preparing biennial reports of the status of internal controls and internal auditing within the executive agencies;
4. Providing internal control-related training and assistance, internal audit resource sharing; and
5. Coordinating the annual agency head internal control certification.

Annual Certification

Minnesota Statute 16A.057, subdivision 8, requires the head of each executive agency to annually certify that the agency head has reviewed his or her respective agency's internal control system, and that the system complies with the standards and policies established by MMB.

Definitions

Internal Control Framework is a standard way to organize, document, and discuss internal controls. The executive branch uses the [Standards for Internal Control in the Federal Government](http://www.gao.gov/greenbook/overview), also known as the *Green Book* (<http://www.gao.gov/greenbook/overview>), published by the U.S. Government Accountability Office (GAO), as its framework. The Green Book breaks internal controls into five interrelated components — control environment, risk assessment, control activities, information and communication, and monitoring — as well as 17 principles, that work together to form an effective internal control system.

Internal Control Principles help management achieve a strong internal control system by supporting the effective design, implementation, and operation of the five interrelated components. The Green Book identifies 17 principles, which were adapted from the Committee of Sponsoring Organizations of the Treadway Commission (i.e. COSO) 2013 revision of [Internal Control: Integrated Framework](http://www.coso.org) (www.coso.org) for the government environment.

Control Environment is the first component of the internal control framework and is the foundation of an effective internal control system. Control environment includes five related principles:

1. The oversight body and management should demonstrate a commitment to integrity and ethical values
2. The oversight body should oversee the entity's internal control system.
3. Management should establish an organizational structure, assign responsibility, and delegate authority to achieve the entity's objectives.
4. Management should demonstrate a commitment to recruit, develop, and retain competent individuals.
5. Management should evaluate performance and hold individuals accountable for their internal control responsibilities.

An effective control environment exists when employees view internal control as a central part of performing their day-to-day jobs. Internal control is management's responsibility. An effective control environment begins with the "tone at the top"— the words and actions of the agency's leadership. An oversight body oversees the internal control system. An oversight body might be one or a few members of senior management, or may include multiple parties within or external to the entity. Internal management must exclude themselves from their management roles when acting as part of an oversight body. The [MMB Internal Control & Accountability Unit \(IC&A\) website](https://mn.gov/mmb/internalcontrol/internalcontrolframeworkandtools/componentsandprinciplesoftheframework/controlenvironment/) has more information on control environment (<https://mn.gov/mmb/internalcontrol/internalcontrolframeworkandtools/componentsandprinciplesoftheframework/controlenvironment/>).

Risk Assessment is the second component of the internal control framework and refers to the identification and analysis of risks to the organization achieving its goals and objectives. Risk assessment includes four related principles:

6. Management should define objectives clearly to enable the identification of risks and define risk tolerances.
7. Management should identify, analyze, and respond to risks related to achieving the defined objectives.
8. Management should consider the potential for fraud when identifying, analyzing, and responding to risks.
9. Management should identify, analyze, and respond to significant changes that could impact the internal control system.

Agencies should develop a risk assessment plan that identifies those business processes subject to risk assessment. Assessing risks usually includes documenting a particular business process, identifying the risks found in the process, prioritizing those risks, and developing appropriate responses to mitigate those risks based on their priority. The [MMB Internal Control & Accountability Unit \(IC&A\) website](https://mn.gov/mmb/internalcontrol/internalcontrolframeworkandtools/componentsandprinciplesoftheframework/riskassessment/) has more information on risk assessment (<https://mn.gov/mmb/internalcontrol/internalcontrolframeworkandtools/componentsandprinciplesoftheframework/riskassessment/>).

Control Activities is the third component of the internal control framework and refers to the policies and procedures management implements to ensure their directives are carried out to reduce risk and minimize the obstacles to accomplishing goals. The control activities component includes three related principles:

10. Management should design control activities to achieve objectives and respond to risks.
11. Management should design the entity's information system and related control activities to achieve objectives and respond to risks.
12. Management should implement control activities through policies.

Once managers assess the risks facing their agency, they have a basis for developing appropriate risk responses, including implementing control activities to mitigate the risk. Examples of control activities include adequate separation of duties, periodic reconciliations of one accounting system to another, and management reviews and approvals. The [MMB Internal Control & Accountability Unit \(IC&A\) website](https://mn.gov/mmb/internalcontrol/internalcontrolframeworkandtools/componentsandprinciplesoftheframework/riskassessment/) has more information on control activities (<https://mn.gov/mmb/internalcontrol/internalcontrolframeworkandtools/componentsandprinciplesoftheframework/riskassessment/>).

Information and Communication is the fourth component of the internal control framework and refers to the flow of information and data down, across, and up the organization. The information and communication component includes three related principles:

13. Management should use quality information to achieve the entity's objectives.
14. Management should internally communicate the necessary quality information to achieve the entity's objectives.
15. Management should externally communicate the necessary quality information to achieve the entity's objectives.

Information includes facts (i.e., data) and opinions. Communication refers to the flow of information from one person or organization to another. Information and communication are critical to the effective operation of an internal control system, flowing to, from, and through each of the other four components. Because information and communication is imbedded in the other four internal control components, there is not a separate statewide operating procedure on information and communication. The [MMB Internal](https://mn.gov/mmb/internalcontrol/internalcontrolframeworkandtools/componentsandprinciplesoftheframework/riskassessment/)

[Control & Accountability Unit \(IC&A\) website](https://mn.gov/mmb/internalcontrol/internalcontrolframeworkandtools/componentsandprinciplesoftheframework/informationandcommunication/) has more on information and communication (https://mn.gov/mmb/internalcontrol/internalcontrolframeworkandtools/componentsandprinciplesoftheframework/informationandcommunication/).

Monitoring is the fifth component in the internal control framework and refers to the actions taken to ensure that control activities are operating effectively and efficiently, and as intended. Monitoring includes two related principles:

16. Management should establish and operate monitoring activities to monitor the internal control system and evaluate the results.
17. Management should remediate identified internal control deficiencies on a timely basis.

An example of monitoring activities is a periodic review of reconciliation files by senior management to ensure that reconciliations are in fact being prepared. In a grant program, monitoring activities include site visits and desk reviews to ensure that grant funds are properly spent. Periodic internal audits are considered monitoring activities. The [MMB Internal Control & Accountability Unit \(IC&A\) website](https://mn.gov/mmb/internalcontrol/internalcontrolframeworkandtools/componentsandprinciplesoftheframework/monitoring/) has more information on monitoring (https://mn.gov/mmb/internalcontrol/internalcontrolframeworkandtools/componentsandprinciplesoftheframework/monitoring/).

Related Policies and Procedures

[MMB Statewide Operating Procedure 0102-01.1 Control Environment](http://mn.gov/mmb-stat/documents/accounting/fin-policies/chapter-1/0102-01-1-control-environment-procedure.pdf) (http://mn.gov/mmb-stat/documents/accounting/fin-policies/chapter-1/0102-01-1-control-environment-procedure.pdf)

[MMB Statewide Operating Procedure 0102-02.1 Risk Assessment](http://mn.gov/mmb-stat/documents/accounting/fin-policies/chapter-1/0102-01-2-risk-assessment-procedure.pdf) (http://mn.gov/mmb-stat/documents/accounting/fin-policies/chapter-1/0102-01-2-risk-assessment-procedure.pdf)

See also

[Internal Control and Accountability Unit website](http://mn.gov/mmb/internalcontrol/) (http://mn.gov/mmb/internalcontrol/)