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Internal Controls BULLETIN

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Can you have too many controls?

- **Each control activity comes with a cost, in terms of time, effort, and money.**
- **Control activities must be appropriate, given the related risks.**
- **Do not be afraid to discontinue control activities with marginal effectiveness or no cost-benefit.**

A recent television advertisement asks a group of school age children if "more" is "better." After a fairly convoluted discussion (mostly centered around candy), they all agree that more is indeed better. While that may be true for the speed of your cell phone service, is it also true of your agency's internal controls? Probably not.

While we all need to be control conscious, we also need to be aware that every control activity comes with a cost, in terms of time, effort, and money. It only makes sense then, to be thoughtful about the control activities you put into place, making sure they are appropriate and effective, given the related risks. In other words, we want to make sure each control activity gives us the "biggest bang for the buck."

The consequence of too many controls is three-fold; it can slow down processing, frustrate your employees, and is overly expensive to maintain.

Too many controls slow down transaction processing unnecessarily. Because the hand-offs and edits inherent in any good control system take time, it is important that they be cost-beneficial. For example, computer edits are appropriate and necessary preventive controls, as they check for discrepancies before transactions are processed. However, ill-designed edits can cause too many transactions to be rejected or subject to time consuming manual second reviews. This could ultimately cause massive delays, noncompliance with deadlines and unhappy customers.

Too many controls also invite employees to create work-arounds or short-cuts. If the process seems too bureaucratic and impractical, without any perceived benefits, frustrated employees may look for ways to circumvent the controls or "work the system." This may result in an undesirable culture that is increasingly dismissive of all guidelines, not just the less practical ones.

Finally, too many controls incur excessive costs. Unnecessary controls throw the cost-benefit equation out of balance. They require additional staff, system programming, or manual transaction reviews, which all have a real cost in terms of time and money.

Fewer, but highly effective controls should be our goal. A mix of preventive (front-end) and detective (after the fact) controls are best.

Risk assessments provide a mechanism to review all of the high risks within a business process or function and match them up against currently existing control activities. Obviously, those risks with the highest priority should have the strongest and most robust control activities.

Having multiple controls that address a single high risk is often appropriate. However, after performing a risk assessment, agencies often find they have too many controls addressing some risks and not enough controls addressing other risks. Over time, your agency may have added control activities without considering the big picture or without reducing the number of control activities in lower risk areas.

The risk assessment process is a perfect time to rebalance your control activities. You may be able to discontinue some control activities in lower risk areas and redeploy those resources toward higher priority risk mitigation. You also may be able to identify and put into place new controls that address multiple risks, thereby increasing efficiency. Finally, you may be able to rethink your control activity strategy in light of changes in processes or technology advances. Often it is possible to replace multiple manual controls with more efficient and effective automated application controls.

Suggested action steps: When performing a risk assessment, pay attention to both the quantity and quality of each identified control activity. While making sure key controls are in place, do not be afraid to discontinue control activities with marginal effectiveness or no cost-benefit.

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