Naughty or nice?

**Highlights**

- Improving internal controls should be more than just a one-time event.
- Improving internal controls year-round helps avoid failures (i.e. coal in our stockings) and reaps gifts of efficient and fraud-resistant systems.
- Put your systems on the “nice” list during the next year by actively managing internal controls, performing risk assessments, being proactive, and balancing controls.

As every child knows, this is the time of year when Santa is “making a list and checking it twice” to find out who has been naughty or nice. As the story goes, good little boys and girls will end up with wonderful holiday gifts, while their naughty counterparts will get nothing but coal in their stockings. Parents often see kids putting on the “nice” hat in December, hoping it will be enough. However, good parents try to stress that good behavior should be a year-long goal, and not just a one-time event.

We adults (or at least most of us!) have long outgrown the idea of Santa Claus. However, we may still get caught up in the notion of putting on our “nice” internal control hat for a short period of time once or twice a year, usually right before the annual internal control certification or an audit. Instead, good controls deserve year round attention. The continuous goal of improving internal controls will ultimately allow us to avoid failure (i.e. coal in our stockings) and reap gifts of efficient and fraud-resistant operations.

When it comes to internal controls, here is a list of some ways to put your systems on the “nice” list during the next year:

**Actively manage your internal controls.** It is important to continuously monitor your agency’s control systems. Managers and supervisors must verify employees are performing key control activities and systems continue to operate as intended.

**Perform risk assessments.** Making risk assessment a part of your agency’s culture allows employees at all levels to recognize the risks they are facing and consider the way those risks influence their work. It also gives employees the power to help choose appropriate controls to manage the risks.

**Be proactive.** We need to anticipate change and its impact on controls. Managers must periodically reevaluate risks and existing controls, considering the impact of changes in technology, legislation, and personnel. Otherwise, new or emerging risks could go unidentified and unaddressed.

**Balance your controls.** Every control activity comes with a cost, in terms of time, effort, and money. It is important to pay attention to both the quantity and quality of each control activity. While making sure key controls are in place, employees should consider discontinuing control activities with marginal effectiveness or no cost-benefit.

**Document, document, document.** Documentation is a critical part of an effective internal control structure. It helps ensure consistency, efficiency and continuity. Adequate documentation provides proof employees are consistently performing control activities. It also helps in training new and backup personnel.

**Suggested action steps:** Would Santa find your internal control system naughty or nice this holiday season? Are you giving your internal control system year round attention? If not, take this opportunity to more actively manage and improve your internal controls throughout the upcoming year.

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