



## Internal controls: Art or science?

### Highlights

- Identifying the proper blend of controls in an agency is a lot like cooking—it is an art, not a science.
- Agencies have several types of controls available to support their internal control systems.
- An effective internal control system includes a mix of hard and soft controls.

Have you heard the saying, “Baking is a science, but cooking is an art?” I, for one, totally agree with this notion. I feel like I am back in a high school chemistry class when I bake. Baking requires precise measurement, proper ingredients, patience and close attention to step-by-step recipe instructions. Altering the recipe involves calculated substitutions. One misstep can result in an inedible blob, like my chemistry experiments!

Cooking, on the other hand, allows me to be creative and think outside the box. With a little imagination and flexibility, I can whip up a great dish, using only the ingredients found in my kitchen pantry and refrigerator.

Defining the proper blend of internal controls in your organization is a lot like cooking. There is no step-by-step recipe or how-to book. Each agency needs a unique set of controls. Your organization undoubtedly already has many controls in place and can use them to tweak the recipe to cook up a one-of-a-kind internal control system. Maybe, you have not fully recognized all these existing controls.

**Hard** controls are tangible activities. Like the main ingredients in a meal, they leave visible evidence. Hard controls can either be *preventive* or *detective*.

*Preventive* controls stop an error or problem from occurring, like setting the oven timer to avoid overcooking. Preventive controls can either be automated (e.g., security access restrictions, password requirements, system edit checks and security roles enforcing segregation of duties) or manual (e.g., documentation reviews before authorizing a grantee or vendor payment, secure storage for official documents, or segregation of duties). Automated preventive controls, like using a

bread machine rather than making bread by hand, are considered superior, because they perform consistently and are not subject to human error. However, manual controls address situations where automation is not possible or is cost prohibitive.

*Detective* controls identify errors or irregularities after they occur, like taste testing a sauce before adding additional spices. These controls allow you to investigate concerns and allow time to take prompt corrective action before the issue worsens. Detective controls include reconciliations, exception reports and actual expenditure-to-budget monitoring.

**Soft** controls are intangible activities and are mainly considered preventive controls. They are the subtle spices that tingle the taste buds, but do not overpower the main ingredients. They create the foundation for hard control activities by influencing how employees perform their duties. Examples are management’s philosophy, integrity, ethics, openness, training, policies and procedures.

Before you finish cooking up an internal control system, it is important to note that an internal control system will not be effective without a mixture of both hard and soft controls. Hard controls ensure the right things happen at the right times. Soft controls help employees understand and appreciate how their control responsibilities support the agency in achieving its goals and objectives.

*Suggested action steps:* Think about the controls you have available within your organization. Be creative in how you can apply controls to address key risks.

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