



## Internal Control Framework

The state has adopted the *Standards for Internal Control in the Federal Government (Green Book)*\* as its internal control standard for designing, implementing and maintain an effective system of internal control. The Green Book consists of five interrelated components:

1. **Control Environment** establishes management's commitment to good governance. It begins with the "tone at the top" – the tone set by agency heads, managers and supervisor that influences employee attitudes and provides guidance for acceptable and unacceptable behavior within the agency.
2. **Risk Assessment** consists of identifying, analysing, and managing risks that could prevent or hinder the agency from achieving its goals and objectives; protect its assets from loss, provide reliable reporting; comply with applicable laws, regulations, policies and procedures; and, operate efficiently and effectively.
3. **Control Activities** include policies, procedures and actions the agency puts into place to help achieve expected results and mitigate risks. The concept of reasonable assurance recognizes that the cost of a control activity should not exceed the expected benefit of mitigating a risk.
4. **Information and Communication** addresses the need within an agency to identify, capture, and communicate pertinent information in a timely manner to the right people. This component overlaps all other components. Management must establish clear lines of communication throughout the agency at all levels: downward, upward, and laterally. It is also important to maintain open communications with appropriate outside parties.
5. **Monitoring** enables management to evaluate and revise internal controls on an ongoing basis. Two common reasons that cause internal controls to lose their effectiveness over time are when 1) processes or risks change and underlying control activities are not adapted to those changes, and 2) previously effective control activities cease to operate as intended.

## Definition of Internal Control\*

Internal control is a process effected by an entity's oversight body, management, and other personnel that provides reasonable assurance that the objectives of an entity will be achieved, including:

- **Operations** – Effectiveness and efficiency of operations
- **Reporting** – Reliability of reporting for internal and external use
- **Compliance** – Compliance with applicable laws and regulations

## Principles of Internal Control\*

### Control Environment

1. *Demonstrate commitment to integrity and ethical values*
2. *Exercise oversight responsibility*
3. *Establish structure, responsibility, and authority*
4. *Demonstrate commitment to competence*
5. *Enforce accountability*

### Risk Assessment

6. *Define objectives and risk tolerances*
7. *Identify, analyze, and respond to risk*
8. *Assess fraud risk*
9. *Analyze and respond to change*

### Control Activities

10. *Design control activities*
11. *Design activities for the information system*
12. *Implement control activities*

### Information and Communication

13. *Use quality information*
14. *Communicate internally*
15. *Communicate externally*

### Monitoring

16. *Perform monitoring activities*
17. *Remediate deficiencies*

## Why an Internal Control System Is Important

- The sheer size of the state necessitates reliance on the work of many people within many state agencies.
- As state agency employees, we are accountable to many stakeholders, including taxpayers, legislators, bondholders, and the federal government. It is important for us to use the state's resources wisely, and to demonstrate that we have done our best to achieve the objectives of the state and our agencies. Implementing an effective internal control system will provide us with that reasonable assurance.
- The checks and balances inherent in a good internal control system give the state protection against significant errors and irregularities.
- An internal control system provides a method of ongoing monitoring to ensure procedures are followed.
- It is the law. Minnesota Statute 16A.057 requires the head of each executive branch state agency to design, implement and maintain an effective system of internal control.

An effective internal control system helps make good things happen and prevents, or reduces, the risk of bad things happening.

The design, implementation, and monitoring of an internal control system is not merely a compliance mandate, but an opportunity to improve internal control effectiveness and efficiency throughout the agency.

## Key Points

- People at every level affect internal control.
- Effective internal control helps an agency achieve its operations, reporting and compliance goals and objectives.
- Internal control systems are continually evolving and changing as the agency's internal and external environment change.
- Internal control can provide only reasonable assurance—not absolute assurance regarding the achievement of an agency's goals and objectives.

## Responsibilities

The responsibility for internal controls lies with everyone.

### Management Responsibilities:

- Ensuring internal controls are established, properly documented, maintained, and followed.
- Providing leadership and direction in setting objectives, assessing risks and periodically evaluating controls.
- Strengthening controls when weaknesses or deficiencies are detected and implementing recommendations to findings issued by auditors.
- Providing adequate supervision to ensure internal controls are operating as intended.
- Obtaining internal control training for all agency employees, including management.

### Employee Responsibilities:

- Performing all internal control activities as required and assigned.
- Reporting significant internal control deficiencies to your supervisor or other agency channels, as designated.

## MS 16A.057 INTERNAL CONTROLS AND INTERNAL AUDITING

### Subd. 8. Agency head responsibilities.

The head of each executive agency is responsible for designing, implementing, and maintaining an effective internal control system within the agency. The head of each executive agency must annually certify that the agency head has reviewed the agency's internal control systems, and that these systems are in compliance with standards and policies established by the commissioner. The agency head must submit the signed certification form to the commissioner of management and budget, in a form specified by the commissioner.

### MMB Statewide Operating Policy 0102-01 INTERNAL CONTROL SYSTEM

The head of each executive branch state agency must design, implement, and maintain an effective system of internal controls. This system must safeguard public funds and assets and minimize incidences of fraud, waste, and abuse; ensure programs are administered in compliance with federal and state laws and rules; and require documentation of internal control procedures over financial management activities, provide for analysis of risks, and provide for periodic evaluation of control for adequate design, proper implementation, and effective functioning.

### Internal Control Framework & Tools

(<http://mn.gov/mmb/internalcontrol/internalcontrolframeworkandtools/>)

### U.S. Government Accountability Office (GAO) Green Book

(<http://www.gao.gov/greenbook/overview>)



# Internal Control: A Quick Reference Guide

**Internal Controls Ensure the  
Right Things are done, for the  
Right Reasons, the Right Way,  
at the Right Time**

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Internal Control and Accountability Unit  
<http://mn.gov/mmb/internalcontrol/>