

State of Minnesota

# Internal Controls in State Government



Training for Managers, Supervisors and Employees

## What is Internal Control?

**COSO Framework:**

A process designed to provide *reasonable* assurance on the achievement of:

- Reliability of financial reporting
- Compliance with laws & regulations
- Effectiveness & efficiency of operations

## Internal Control Policy Objectives

- Internal control systems are effective
- Financial information is reliable
- Public funds are managed prudently



## What are your responsibilities as a manager?

- Develop an effective internal control system
- Provide adequate supervision
- Provide leadership and direction
- Obtain training for self and staff
- Strengthen controls when weaknesses are detected



## What is Internal Control?

To make sure

- The things we want to happen **will** happen
- And the things we do not want to happen **will not** happen



## Internal Control Components





## Risk Assessment

### What is Risk?

Anything that could negatively impact the agency's ability to:

- Achieve its goals
- Operate efficiently and effectively
- Protect its assets from loss
- Provide reliable financial data
- Comply with applicable laws, regulations, policies and procedures



- ## Questions to Ask
- What types of transactions and activities expose us to greatest risk?
  - What could go wrong?
  - What laws or regulations could be violated?
  - What policies affect us the most?
  - How could someone bypass internal controls?
  - What potential risks could cause adverse publicity?



## Control Activities

- Policies and procedures that ensure directives are carried out.

**Risk is addressed at all levels.**

## Examples of Control Activities

- Authorization and approval controls
- Information processing controls
- Physical controls
- Segregation of duties

## Key Duties to be Separated

- Authorizing transactions
- Maintaining recorded accountability in accounting records
- Maintaining custody of assets
- Reconciling assets to accounting records



## Cost/Benefit Analysis



## Information and Communication



- Accounting system
- Staff communication



## Monitoring

Reasons internal control systems lose effectiveness:

- Processes or risks change, and underlying controls do not adapt
- Previously effective controls cease to operate as they were designed

## Steps for Monitoring

Assess design and operation



Communicate weaknesses



Take corrective actions



Periodically follow-up

## Why are Internal Controls Important?

Size of state necessitates  
relying on work of others

Check & review system protects  
against errors and irregularities

Provides method to meet  
necessity of ongoing monitoring

## What do you need to do next?

Do you have an  
effective  
internal control  
system set up?



## What do you need to do next?

Are you  
providing  
direction in  
setting  
objectives,  
assessing risks  
and evaluating  
controls?



## What do you need to do next?

Are you  
providing  
adequate  
supervision?



## What do you need to do next?

Are you  
obtaining  
adequate  
training for your  
staff and  
yourself?



## What do you need to do next?

When  
weaknesses are  
detected, are  
you  
strengthening  
controls?



## State Statutes

- Ethics of public officials – 10A.07
- Code of Ethics – Executive Branch – 43A.38
- Destruction of Public Records – 138.225
- Whistle blower Act -181.932
- Reporting fraud – 609.456
- Making false official report – 609.43

## Minnesota Management & Budget

Operating Policy and Procedure  
102-01

Internal Control