

TOPIC	INTERNAL CONTROL	SUB-SECTION 30.00.00
SECTION		ISSUANCE DATE T O F A F I C E
SUB-SECTION	INDEX	REVISION NUMBER F F I C A

30 Internal Control

10 Overview

10 Introduction

20 Requirements

10 Agency Responsibilities

20 Certification Letter

30 Internal Control Plan

30 Components

10 Control Environment

20 Risk Assessment

30 Control Activities - Introduction

31 Control Activities - Purchasing and Disbursements

32 Control Activities - Cash Receipts

33 Control Activities - Payroll

40 Information and Communication

50 Monitoring

40 Audit

10 The Auditor's Report

50 Assessment

10 Overview

**STATE OF MISSISSIPPI  
DEPARTMENT OF FINANCE AND ADMINISTRATION**

TOPIC	INTERNAL CONTROL	SUB-SECTION 30.00.00
SECTION		ISSUANCE DATE MAY 13, 2011
SUB-SECTION	INDEX	REVISION NUMBER 11-012

- 60 Policies
  - 10 Fraud, Waste and Abuse
  - 20 Overriding Internal Controls
  - 30 Related Party and Nepotism
  - 40 Ethics
  - 50 Federal Debarment

TOPIC	INTERNAL CONTROL	SUB-SECTION 30.10.10
SECTION	OVERVIEW	ISSUANCE DATE September 8, 2009
SUB-SECTION	INTRODUCTION	REVISION NUMBER 10-004

### INTRODUCTION

Responsibility for implementing internal controls at each agency begins with the chief executive officer (agency head) and extends to everyone in the agency. Each agency head personally holds the leadership responsible for helping to design, implement, maintain, and champion an internal control program that encompasses all agency fiscal programs and related activities. Each agency's chief financial officer shares this leadership role, yet ultimate accountability remains with the agency head.

The Committee of Sponsoring Organizations of the Treadway Commission (COSO) now sets the most broadly accepted standards for internal control in the U.S. COSO has issued two key standards documents: *Internal Control Integrated Framework (September, 1991)* and *Enterprise Risk Management – Integrated Framework (September, 2004)*. Those responsible for implementing these standards may find it helpful to read these documents for a deeper conceptual understanding of internal controls.

#### WHY SHOULD AGENCIES BE CONCERNED ABOUT INTERNAL CONTROL?

- IT IS THE LAW

Section 7-7-3(6) (d), Miss. Code Ann. as amended, states that each agency through its governing board or executive head is required to maintain continuous internal audit covering the activities of such agency affecting its revenue and expenditure, and an adequate internal system of preauditing claims, demands and accounts...to ensure that only valid claims, demands and accounts will be paid.

- IT IS NECESSARY TO ACHIEVE OBJECTIVES OF EFFECTIVE AND EFFICIENT OPERATIONS

State programs must operate and resources must be used consistent with agency missions and with minimal potential for waste, fraud and mismanagement. Effective internal control provides assurance that significant weaknesses that could affect the agency's ability to meet its objectives would be prevented or detected in a timely manner.

- IT IS NECESSARY TO ENSURE THAT FINANCIAL STATEMENTS ARE FAIRLY STATED

In 2002, the Sarbanes-Oxley Act (SOX) was enacted to restore trust in publicly traded companies after a surge in internal control scandals. Internal control breakdowns resulted in the issuance of fraudulent financial statements that led to the loss of tens of thousands of jobs and billions of dollars in shareholder wealth. There is increased public awareness that internal control is a manager's responsibility. In effect, SOX gave COSO's internal control requirements the force of law, including unprecedented criminal sanctions for fraudulent reporting.

The passage of SOX serves as an impetus for federal, state and local governments to reevaluate their current policies relating to internal control over financial reporting and management's related responsibilities. While SOX created a new requirement that management of publicly traded companies strengthen their processes for assessing and reporting on the internal control over financial reporting, government managers have been subject to similar internal control reporting requirements for many years.

- IT IS NECESSARY TO ENSURE THAT THE AGENCY IS IN COMPLIANCE WITH APPLICABLE LAWS AND REGULATIONS

The Mississippi Code Ann. (1972) as amended has numerous laws and regulations applicable to the

TOPIC	INTERNAL CONTROL	SUB-SECTION 30.10.10
SECTION	OVERVIEW	ISSUANCE DATE September 8, 2009
SUB-SECTION	INTRODUCTION	REVISION NUMBER 10-004

management of state agencies. Managers must have a thorough understanding of those laws and regulations specific to their agency, as well as, general statutes that govern all agencies. Internal controls must be adopted in each agency to ensure that the agency is in compliance with these laws and regulations. A lack of compliance with a statutory requirement can be punitive.

OMB Circular A-133 requires governmental entities receiving federal funds to maintain internal control over federal programs that provide reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations and the provisions of contracts or grant agreements that could have a material effect on each of its federal programs.

- IT HAS AN IMPACT ON YOUR AUDIT AND MAY IMPACT AUDIT COST

An audit of any governmental entity includes an assessment of the internal control system of that entity. A strong internal control system and an auditor's ability to rely upon it will impact the degree of substantive testing required by the auditor; and thus, will impact the cost of the audit.

OMB Circular A-133 requires auditors to obtain an understanding of the non-Federal entity's internal control over federal programs sufficient to plan the audit to support a low assessed level of control risk for major programs and compliance requirements for each program, and, unless internal control is likely to be ineffective, perform testing of internal control as planned. Audits performed under the Single Audit Act Amendments of 1996 require the auditor to issue a report, in addition to the report required by the Government Audit Standards, on their consideration of internal control over major federal programs, including tests of those controls. Their report must disclose reportable conditions and material weaknesses, if any, in internal control over major programs they identify as a result of the procedures performed.

Statement of Auditing Standard (SAS) 115 entitled "Communicating Internal Control Related Matters Identified in an Audit" defines deficiency in internal control, significant deficiency, and material weakness and provides guidance for auditors on evaluating the severity of the deficiencies in internal control. Determination as to whether a deficiency is significant or material is based upon whether a reasonable person would derive the same conclusion as the auditor or whether prudent officials having knowledge of the same facts and circumstances would agree with the auditor's classification of the deficiency. Significant deficiency is defined as a deficiency or combination of deficiencies in internal control that is less severe than a material weaknesses, yet important enough to merit attention by those charges with governance. A material weakness is a deficiency or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. SAS 115 actually cites situations which indicate that a deficiency in internal control should be regarded as at least a significant deficiency and a strong indicator of a material weakness – one key item in the list is ineffective oversight of the entity's financial reporting and internal control by senior management and those charged with governance.

At the start of an agency audit, agency management is asked by the Office of State Auditor to sign an engagement letter. The letter outlines responsibilities of management which includes the establishment and maintenance of effective internal control.

- IT MAY IMPACT THE PREAUDIT OF YOUR FINANCIAL DOCUMENTS PROCESSED BY BFC

The degree to which an agency's documents are selected for sampling depends upon that agency's implementation of a strong internal control system and their continued assessment of the risks associated with their internal control system.

TOPIC	INTERNAL CONTROL	SUB-SECTION 30.10.10
SECTION	OVERVIEW	ISSUANCE DATE September 8, 2009
SUB-SECTION	INTRODUCTION	REVISION NUMBER 10-004

Internal control should be an integral part of the entire cycle of planning, budgeting, management, accounting, and auditing and should support the effectiveness and the integrity of every step of the process and provide continual feedback to management. Managers should consider the appropriate balance between controls and risk in their agency. Too many controls can result in inefficient and ineffective government. Agencies should consider both qualitative and quantitative factors when analyzing costs against benefits. The benefits of controls should outweigh the cost.

Appropriate internal control should be established by agency management to direct and guide its operations. Internal control applies to program, operational, and administrative areas as well as accounting and financial management.

No matter how well designed and operated, effective internal control provides only reasonable, not absolute assurance. Limitations exist wherever internal controls exist, whether in the public, private, or not-for-profit sectors. Achievement of objectives is influenced by limitations inherent in all management processes, including:

- Faulty judgment or other human error
- Collusion
- Management override of controls
- Limitations disclosed by cost-versus-benefit analysis

TOPIC	INTERNAL CONTROL	SUB-SECTION 30.20.10
SECTION	REQUIREMENTS	ISSUANCE DATE November 26, 2013
SUB-SECTION	AGENCY RESPONSIBILITIES	REVISION NUMBER 14-006

### AGENCY RESPONSIBILITIES

While each state employee has personal internal control responsibility, the agency director holds ultimate responsibility and must assume ownership for internal control. Other agency executives and managers must support the agency's internal control philosophy, promote compliance, and maintain control within their areas of responsibility. Chief financial officers have key oversight and policy enforcement roles over fiscal matters. Other agency managers may hold lead responsibility for compliance with non-financial aspects of laws, directives, policies, procedures, and the code of ethics.

The agency director should designate a senior manager as the internal control officer. This person has the responsibility for coordinating the overall agency-wide effort of evaluating, improving, and reporting on internal controls. A risk assessment of agency internal control systems is to be made annually, and an internal control evaluation is to be made when the risk assessment indicates a high level of risk associated with an agency internal control system.

Agencies have the flexibility to assign the appropriate staff for completing the risk assessments and internal control evaluations required by this policy. This staffing includes those directly responsible for the system from first line supervisor on up. The internal control officer establishes the staffing plan for these assessments and reviews.

Internal auditors hold essential responsibilities for assessing, testing, and reporting on internal control. However, internal auditors cannot relieve agency management from its internal control responsibilities. Although internal auditors can provide valuable consultative services with regard to control design, function, and assessment, they cannot relieve management of its responsibility. Agency management may use the internal auditor's analysis of internal control in management's assessment of internal controls; however, the internal auditor's work cannot be substituted for management's independent analysis and documentation of agency internal control. Internal auditors are limited to serving as independent evaluators and verifiers of internal control components and management performance in maintaining internal control.

Agencies are to maintain adequate written documentation for activities conducted in connection with risk assessments, internal control reviews, and follow-up actions. This documentation is to be available for review by agency management, the Office of State Auditor and DFA-OFR.

Annually, each agency director and chief financial officer shall sign and submit a letter to DFA-OFR certifying that internal controls within the agency have been evaluated in accordance with guidelines established. This letter will report the results of the agency's compliance, including an attached summary description of material internal control weaknesses and significant deficiencies, if any, and a brief corrective action plan.

TOPIC	INTERNAL CONTROL	SUB-SECTION 30.20.20
SECTION	REQUIREMENTS	ISSUANCE DATE November 26, 2013
SUB-SECTION	CERTIFICATION LETTER	REVISION NUMBER 14-006

CERTIFICATION LETTER

Once sufficient information has been gathered and documented in an agency's internal control plan, the agency should determine:

- If internal control weaknesses exist, and if necessary, how it will respond to those weaknesses.
- The agency's plan of action for improving the internal controls over the transaction cycles.
- The overall soundness of the internal control system over the transaction cycles.

This analysis should be documented in the certification letter to DFA-OFR. An example of which is provided below:

***(Agency Letterhead)***

***(Date)***

Department of Finance and Administration  
Office of Financial Reporting

Dear Sir or Madam:

In accordance with the Internal Control Section of the Mississippi Agency Accounting Policy and Procedures Manual, ***(Agency Name)*** has conducted an evaluation of internal controls. Our review of internal control included the organization and management, administration of accounting and budgeting, purchasing and contracting, personnel and payroll, revenues and receivables, expenditures, grant administration, and electronic data processing. The findings of our evaluation provide reasonable assurance that the assets of the agency have been preserved, the duties have been segregated by function, and the transactions executed are in accordance with laws of the State of Mississippi.

(If the Executive Director finds that the agency has a material weakness in any of its functions, the following information will be provided.)

The following weaknesses were noted and could have a material affect on the assets and financial statements that have been prepared:

***(Describe the weaknesses.)***

The weaknesses described above will be corrected by the following action plan:

***(Describe the plan of correction.)***

It is intended that this corrective action plan will be initiated by ***(Date)*** and completed by ***(Date)***.

Sincerely,

\_\_\_\_\_  
Executive Director

\_\_\_\_\_  
Chief Financial Officer/Accounting Director

TOPIC	INTERNAL CONTROL	SUB-SECTION 30.20.30
SECTION	REQUIREMENTS	ISSUANCE DATE JUNE 30, 2008
SUB-SECTION	INTERNAL CONTROL PLAN	REVISION NUMBER 08-006

### INTERNAL CONTROL PLAN

#### INTRODUCTION

The development of agency internal control plans will provide assurance that the State's assets are being safeguarded, that applicable statutes, rules and regulations are being followed, and that the objectives of agency management are being met. An internal control plan identifies management's idea of how activities should be operating.

An internal control plan is more than just a list of procedures or flowcharts of how activities operate. Rather, an internal control plan is a comprehensive document that encompasses all components of an agency's internal controls. An agency's internal control plan should contain documentation on its control structure as it relates to these components. The plan for one agency will differ from that of another agency due to size, complexity, resources, and other factors.

Development and annual assessment of a plan allows management the opportunity to determine if the actual activities are operating as expected and helps identify any control weaknesses that should be corrected.

The systems of internal controls, which have evolved in the State and its agencies, have served a variety of useful purposes over the years. Generally, controls are more evident in the areas of finance and accounting due to management's perception of the high inherent risks in these areas, and due to the scrutiny that these functions have historically garnered by audit activities. However, regardless of the status of an agency's internal control system, most would agree that there is always room for improvement. This need for improvement is not an indictment against the existing controls, but rather reflects a desire to gain the added assurances that an organized structure will provide. By preparing an internal control plan, an agency is providing itself and DFA with this added assurance.

Agency's should be aware that internal control structures, no matter how well designed and operated, can provide only reasonable assurance to management regarding achievement of its objectives. By definition, internal controls are designed to provide reasonable assurance that the objectives of a system will be accomplished. Reasonable assurance equates to a satisfactory level of confidence under given considerations of costs, benefits, and risks. Cost refers to the financial measure of resources consumed in accomplishing a specified purpose. Cost can also represent a lost opportunity, such as a delay in operations, a decline in service levels, or low employee morale. A benefit is measured by the degree to which the risk of failing to achieve a stated objective is reduced. Examples include increasing the probability of detecting fraud, waste, abuse or error, preventing an improper activity, or enhancing regulatory compliance. The likelihood of achievement is affected by limitations inherent in all internal control systems. These include the realities that human judgment in decision-making can be faulty, persons responsible for establishing controls need to consider their relative costs and benefits, and breakdowns can occur because of human failures such as simple error or mistake.

#### How should an internal control plan be prepared?

DFA recommends that agencies use the five components of an internal control structure: Control Environment, Risk Assessment, Control Activities, Information and Communication, and Monitoring as a blueprint for the preparation of their internal control plans. The use of these components, and not a "canned" or strict step-by-step method, will produce internal control plans that have a common basis for comparison, while also providing agencies with a certain level of flexibility.

#### How voluminous or detailed must the plan be? What documentation should the plan contain?

TOPIC	INTERNAL CONTROL	SUB-SECTION 30.20.30
SECTION	REQUIREMENTS	ISSUANCE DATE JUNE 30, 2008
SUB-SECTION	INTERNAL CONTROL PLAN	REVISION NUMBER 08-006

This depends on a number of factors, including an agency's size, the complexity of its organizational structure, and the functions it performs. The actual hard copy of a plan may contain: policy and procedures manuals, flowcharts of financial processes, agency mission statements, an affirmation signed by the agency head supporting the agency's efforts to improve its internal control structure, and a description of how the agency intends to monitor its internal control system. The plan's contents will vary by agency. However, the information required to document a specific agency's plan should become apparent as the agency works through the following sections.

### **Section 1 - Control Environment**

#### How does an agency incorporate its control environment into its internal control plan?

This can be accomplished by gathering and documenting evidence that supports the assumption that the agency maintains a sound control environment. The following discussion should facilitate the evidence gathering process.

#### Does your agency have written mission, philosophy or code of conduct statements?

If these documents have been prepared, they should be included in the plan. Such statements serve to clarify the agencies functional goals and objectives. They also provide insight into management's beliefs, attitudes, and operating style.

At a minimum, the head of your agency should prepare a statement for inclusion in the plan that affirms their support of the concept of internal controls and provides staff with an understanding and awareness of the benefits of effective internal controls. This statement must also mention that safeguarding the State's assets and ensuring the proper use of State resources is an integral part of the agency's mission and its responsibility.

Maintaining a sound internal control environment requires that: (1) Qualified, competent individuals are hired. (2) Employees are adequately trained. (3) Employees explicitly and implicitly understand their responsibilities. (4) Management has provided its employees with the authority to perform the tasks that they are assigned.

#### Does your agency maintain written personnel policies or standard operating procedures in addition to those published by the State Personnel Board?

If so, include a copy of the procedures in the plan (or reference the document) along with the State Personnel Board handbook.

The agency should provide a statement as to how agency policies and procedures are communicated to employees, how employees are made to understand what behavior is acceptable and unacceptable, and how employees are instructed to report unacceptable behavior regarding ethical and moral concerns.

Do your agency policies provide adequate provisions for employee training? For example, does your agency encourage training or have a formal training or continuing education program?

Is the performance evaluation process used as a positive tool to reaffirm the agency's mission as it relates to an employee? Does this process assist an employee in succeeding within the agency's framework?

Include a copy of an up-to-date organization chart, as well as, a list of your board members, if applicable.

TOPIC	INTERNAL CONTROL	SUB-SECTION 30.20.30
SECTION	REQUIREMENTS	ISSUANCE DATE JUNE 30, 2008
SUB-SECTION	INTERNAL CONTROL PLAN	REVISION NUMBER 08-006

Has your agency established procedures to periodically analyze employee turnover patterns, particularly among key financial or internal audit staff, to identify any correlation with the emphasis you place on control?

Does your agency periodically review the size of the organization's staff in view of the following factors?

- appropriate number with requisite skills in relationship to complexity of activities and systems
- adequacy of work force, in numbers and experience, to carry out the mission of the organization

Does your agency have an audit committee? If so, please identify the members.

Identify personnel responsible for monitoring compliance requirements imposed by state and federal statutes and regulations.

Is there an internal audit function present within the agency? If so, who has direct responsibility over the internal audit division? Describe qualifications of internal audit staff, normal duties of the internal auditors and types of reports issued by them.

Due to the abstract nature of the control environment concept, agencies may find that a number of other pieces of evidential matter maintained by their agency, which are not included in the above discussion, better portray or define their control environments. Agencies should be compelled to include these items in their plans.

## **Section 2 - Risk Assessment**

How does an agency incorporate risk assessment into its internal control plan?

- Document an understanding of how your agency functions.
  - Incorporate the agency's mission and operations, its organizational structure, and its funding.
  - Include the general control environment, the overall financial management process, the role of the accounting system, and other financial management activities.
  - Identify the component systems comprising the complete accounting system.
- Identify the transaction cycles comprising your agency's overall accounting system.
- Identify risks inherent in these transaction cycles and develop strategies to manage them.

## **Section 3 - Control Activities**

How does an agency incorporate control activities into its internal control plan?

For each transaction cycle identified in the risk assessment, document and analyze the flow of information and documents through the process and the internal control activities in place. Most of the information required to complete this step may be found in existing agency documents such as:

- Written policies
- Organizational charts
- Procedural write-ups
- Manuals
- Memoranda
- Flowcharts
- Decision tables
- Questionnaires

TOPIC	INTERNAL CONTROL	SUB-SECTION 30.20.30
SECTION	REQUIREMENTS	ISSUANCE DATE JUNE 30, 2008
SUB-SECTION	INTERNAL CONTROL PLAN	REVISION NUMBER 08-006

#### **Section 4 - Information and Communication**

*What financial information system documentation should an agency include in its internal control plan?*

For each information system used by an agency to process and analyze financial data the agency should:

- Provide a brief description of the system.
  - Define its purpose, function, and place within the agency's information system structure.
- Identify and discuss the system's strengths and weaknesses.
  - Gather a wish list of changes or improvements that need to be made to the system.
  - Document any plans to make improvements to the system or up-date the system.

*How does an agency incorporate communications into its internal control plan?*

The information an agency has collected and documented pursuant to completing the Control Environment section of the agency's internal control plan should contain a majority of the information required to address the documentation requirements of this section.

Examples of documentation related to communication include:

- Policy manuals
- Mission statements
- Accounting and financial reporting manuals
- Memoranda
- Verbal directives or actions of management

#### **Section 5 - Monitoring**

*How does an agency incorporate monitoring into its internal control plan?*

- Document a strategy or plan to ensure that its internal control structure continues to provide reasonable assurance that control objectives are being met by structuring the monitoring programs around the agency's transaction cycles.
- Document formal procedures for responding to audit findings and recommendations, such as:
  - Require prompt evaluation of findings and recommendations.
  - Outline proper actions for response to audit findings and recommendations.
  - Require completion, within established time frames, of all actions that correct or otherwise resolve the matters.

TOPIC	INTERNAL CONTROL	SUB-SECTION 30.30.10
SECTION	COMPONENTS	ISSUANCE DATE JUNE 30, 2008
SUB-SECTION	CONTROL ENVIRONMENT	REVISION NUMBER 08-006

### CONTROL ENVIRONMENT

#### PURPOSE

The control environment sets the tone of the organization, influencing the control consciousness of its people. It is the foundation of all other components of internal control providing discipline and structure. Control environment factors include: management's philosophy and operating style, integrity and ethical values, organizational structure, assignment of authority and responsibility, commitment to competence, and human resource development.

The control environment consists of the actions, policies, and procedures that reflect the overall attitudes of top management and directors of an entity about control and its importance to the entity. The goal of an effective control environment is to promote teamwork among competent, cost-conscious workers with integrity and shared organizational values and attitudes.

An organization's control environment has a significant effect on the following: how objectives are established, how risks are assessed, which control activities are implemented, how information is communicated, and how the monitoring system works. An agency incorporates its control environment into its internal control plan by gathering and documenting evidence that supports the assumption that the agency maintains a sound control environment.

While every entity should embrace these control factors, small and midsized agencies may implement the control environment factors differently than larger agencies. For example, smaller agencies might not have a written code of conduct but, instead, develop a culture that emphasizes the importance of integrity and ethical behavior through oral communication and by management example.

#### MANAGEMENT'S PHILOSOPHY

Management philosophy is the set of shared beliefs and attitudes characterizing how the agency handles everything it does, from developing and implementing strategy to day-to-day activities. This philosophy reflects the agency's values, influencing its culture and operating style, and affects how well fiscal programs can implement, maintain, and enforce control.

Management philosophy appears in policy statements, oral and written communications, and decision-making. Management reinforces the philosophy more with everyday actions than with its words.

#### INTEGRITY AND ETHICAL VALUES

An agency's implementation of strategy and objectives evolve from management's preferences, value judgments, and styles. Management's commitment to ethics influences these preferences and judgments, which translate into behavioral expectations. Effectiveness of control activities cannot rise above the integrity and ethical values of the people who create, lead, and monitor agency programs. To protect an agency's reputation, standards of behavior must exceed mere compliance with law. Top agencies reflect a belief that good ethics is good government.

Agencies that actively and continually support a culture of integrity and ethical values communicate these core values through a code of ethics or similar document. Developing and reinforcing a comprehensive and understandable code is a "best practice" and essential to internal control, linking the agency's mission and vision to its operating policies and procedures. In developing an agency code of ethics, the state's ethics laws and policies and procedures should be reviewed and incorporated.

TOPIC	INTERNAL CONTROL	SUB-SECTION 30.30.10
SECTION	COMPONENTS	ISSUANCE DATE JUNE 30, 2008
SUB-SECTION	CONTROL ENVIRONMENT	REVISION NUMBER 08-006

#### ORGANIZATIONAL STRUCTURE

An agency's organizational structure provides the structure to plan, execute, control and monitor activities. A sound organizational structure defines key areas of authority and responsibility, while illustrating reporting lines. An organizational structure may be centralized or decentralized; it may create direct reporting lines or a matrix format. An agency may be organized by services, geographical locations, or enabling statutes.

#### ASSIGNMENT OF AUTHORITY AND RESPONSIBILITY

Assignment of authority and responsibility involves the degree to which individuals and teams are authorized and encouraged to use initiative, to accomplish objectives, and solve problems. It includes establishing reporting relationships, fixing authorization procedures, issuing policy that assigns appropriate personnel to each program, and allocating resources to do each job. A critical challenge is delegating to the extent required to achieve objectives, ensuring that decision-making is based on sound practices for risk identification and assessment. Another challenge is ensuring that employees understand the agency objectives and how their job contributes to meeting those objectives.

#### COMMITMENT TO COMPETENCE

Competence reflects the knowledge, skills, and abilities needed to meet objectives. Top agencies provide qualified and committed personnel to key control positions.

#### HUMAN RESOURCE DEVELOPMENT

Human resource practices for hiring, orientation, training, evaluating, counseling, promoting, compensating and remediation send messages to employees about expectations for integrity, ethical behavior and competence. For example, standards for hiring and retaining the most qualified and ethical individuals demonstrate an agency's true culture. Providing continuing training and education can ensure staff is informed of changes in their field of expertise. It is essential that employees be trained and prepared to tackle new challenges as they emerge.

TOPIC	INTERNAL CONTROL	SUB-SECTION 30.30.20
SECTION	COMPONENTS	ISSUANCE DATE JUNE 30, 2008
SUB-SECTION	RISK ASSESSMENT	REVISION NUMBER 08-006

## RISK ASSESSMENT

### PURPOSE

Risk affects an agency's ability to survive, to maintain its positive image, and to offer quality services and staff. Every agency faces a variety of risks from external and internal sources that must be assessed. Risk analysis involves a careful, rational process of estimating the significance of a risk, assessing the likelihood of its occurrence, and considering what actions and controls are necessary to manage it. Risk analysis also involves estimating the cost to the agency if an unexpected risk actually occurs. That analysis is based on the agency's assumptions about the risk and the costs associated with reducing it. Sometimes an actual risk may appear to require one set of actions, but the perceived risk, coupled with media reaction to that risk, requires another more expensive set of actions.

Risk assessment begins with the identification of the agency's primary responsibilities and functions through the development of an agency mission statement and strategic plan. In order to communicate the agency's mission statement and goals, risks must be identified both externally and internally.

External influences that contribute to risk include:

- Economic conditions
- Social conditions
- Political conditions
- External regulation
- Natural events
- Supply sources
- Technology changes

Internal influences that contribute to risk include:

- Changes in personnel duties (such as retention of key management personnel)
- Availability of funds for new initiatives or continuation of key programs
- Employee relations (such as compensation and benefit programs)
- Information systems (such as adequate backup systems)
- Data processing (such as disclosure of data, data integrity, and error, fraud or misuse of data)
- Cash management activities
- Asset protection and preservation

An agency's executive director and managers most often define organizational goals. Their management styles and the agency's mission will influence whether they use a formal, highly structured objective-setting process, or a more informal one. The goal of setting objectives is to develop a broadly stated strategic plan, allocating resources and establishing priorities. Senior management then defines specific objectives for various activities. The objectives of all the activities need to complement one another, while taking into account staff and resource capacities. Similarly, the programmatic goals of the smallest unit need to be consistent with the agency's overall strategic plan.

Once the agency develops a mission statement, the objectives of the agency's functions must be identified. They consist of the following three categories: operations, financial and compliance. Objectives often overlap. For example, an objective can serve as an operations objective and serve as a compliance objective.

TOPIC	INTERNAL CONTROL	SUB-SECTION 30.30.20
SECTION	COMPONENTS	ISSUANCE DATE JUNE 30, 2008
SUB-SECTION	RISK ASSESSMENT	REVISION NUMBER 08-006

Operations objectives help staff achieve the agency's basic mission or statutory responsibilities. An example would be the capital police officers patrolling the grounds of the state capital complex.

Financial objectives set standards to assess management's performance, allocate resources, produce statistics, and protect assets. An example would be an agency developing its budget for LBO and DFA.

Compliance objectives include public obligations as well as operational practices, as defined by federal, state, and local laws, rules, and regulations. An example would be the Public Service Commission setting utility rates to meet both its obligation to protect the public interest and its statutory rate-setting responsibilities.

In risk assessment, management considers the mix of potential events relevant to the agency and its activities in the context of the agency's risk profile, which includes size, operational complexity, and regulatory restraints. Many events are routine, recurring, and already addressed in management's programs and operating budgets. Management must assess the risk of unexpected potential events and any expected events that could have a significant impact. Risk assessment is a continuous and repetitive interplay of actions occurring throughout the agency.

Agency heads may not take risks that would knowingly jeopardize their ability to meet obligations for financial management, financial reporting, or compliance with laws, regulations, policies, and procedures. Financial and compliance objectives serve needs of both the agency and of the State as a whole and are "not negotiable" when choosing strategies or tactics for achieving program objectives. Agency heads may only accept risk that relates to operational objectives, not risk that relates to financial or compliance objectives.

Management should assess the positive and negative impacts of potential events. The assessment should be based on the "the odds" that a given event will occur, and on the measurement of the effect of the event in quantitative or qualitative terms. This is known as likelihood and impact, respectively. Often, likelihood and impact estimates are based on past events, offering some objectivity.

Risks should be assessed on both an inherent and residual basis. Inherent risk occurs when management takes no action to reduce either the likelihood or impact of an event. Management assesses inherent risk and then decides how it will respond. Residual risk is the risk that remains after management's risk response.

Response to risk is divided into four categories:

Avoiding risk - ending those activities that give rise to risk for example, eliminating a service or division.

Reducing risk - implementing everyday management decisions including setting control activities. For example, routine mechanical maintenance decreases the likelihood of a major computer hardware failure. Routine backups decrease the impact of technology equipment failure on the agency's ability to provide services.

Sharing risk - transferring a portion of likelihood or impact to another party. Examples of sharing include acquiring insurance or outsourcing an activity.

Acceptance risk - deciding to accept a risk because of cost or other considerations.

Once risks are identified, management considers their significance, the likelihood of their occurrence, and how they should be managed. Management may initiate plans, programs, or actions to address specific risks. When identifying risks, management should take into account relevant interactions within the agency as well as with outside organizations. Risks in different activities may be within their respective managers' acceptable risk levels but, taken together, may exceed the agency-wide acceptable risk level. In such cases, additional or different responses are

TOPIC	INTERNAL CONTROL	SUB-SECTION 30.30.20
SECTION	COMPONENTS	ISSUANCE DATE JUNE 30, 2008
SUB-SECTION	RISK ASSESSMENT	REVISION NUMBER 08-006

needed to bring risk within the agency's acceptable risk level.

The basic concepts of the risk assessment process should be present in every entity, regardless of size. However, the process is likely to be less formal and less structured in small and mid-sized agencies. All agencies should have established financial operations objectives. In the past, these may have been recognized implicitly rather than explicitly. The process of risk assessment as it relates to an agency's internal control plan provides the agency with the opportunity to review, revise, and explicitly recognize these objectives.

An agency's risk assessment process regarding financial objectives should consider the events and circumstances that may occur and adversely affect its ability to record, process, summarize and report financial information. Management should also consider previous findings; e.g., auditor identified, internal management reviews, or noncompliance with laws and regulations when identifying risks. Management should also identify and react to dramatic changes possibly having a persuasive effect on the agency, such as:

- Changed operating environment
- Significant shifts in the workforce
- New or redesigned information systems
- New personnel
- New services, products, activities, or acquisitions
- Organizational restructuring or reductions
- Decentralized operations
- New technology
- Rapid growth

Management should identify the transaction cycles comprising the agency's overall accounting system. An agency can identify its transaction cycles by connecting the financial transactions it uses to the function of the transactions within the agency's accounting system. This process involves listing all of the transactions that an agency must initiate to perform its function, determining relationships between transaction types, and grouping related transactions into cycles. Common transaction cycles within SAAS include:

Transaction Cycle	Examples of Transactions	Possible SAAS Transactions
Grants	Grant awards, receipts and disbursements	SG, SP, SL, CR
Purchases	Requesting Goods or Services	RX, PG, PD, PO, PG, SC, CS, PN, WS
Disbursements	Payment for Goods or Services	P1, PV, MW, QV, GP, GT, EN, EV
Receipts/Billings	Revenue Processing	CR, QR, CC, IN, C1
Payrolls	Payment of Employees	JV
General Accounting	Journal Voucher	JV, JA, JG, J2
Travel	Payment of travel to employees	JV

**STATE OF MISSISSIPPI  
DEPARTMENT OF FINANCE AND ADMINISTRATION**

TOPIC	INTERNAL CONTROL	SUB-SECTION 30.30.20
SECTION	COMPONENTS	ISSUANCE DATE JUNE 30, 2008
SUB-SECTION	RISK ASSESSMENT	REVISION NUMBER 08-006

Risk ranking factors should be applied to each transaction cycle to identify those with the greatest risk. Risk is defined as the level of vulnerability to fraud, abuse, and mismanagement. Factors considered should include magnitude of funds involved, potential impact of ineffective operation, sources of input, degree of automation, known problems, and prior audits. An agency should document the results of this analysis in its internal control plan. An explanation of how the internal control process is organized to address these risks should also be documented.

The management of these risks via the internal control structure should provide reasonable assurance that financial processing functions work as intended.

TOPIC	INTERNAL CONTROL	SUB-SECTION 30.30.30
SECTION	COMPONENTS	ISSUANCE DATE JUNE 30, 2008
SUB-SECTION	CONTROL ACTIVITIES - INTRODUCTION	REVISION NUMBER 08-006

### CONTROL ACTIVITIES - INTRODUCTION

Control activities are policies and procedures implemented to help ensure that risk responses are effectively communicated and occur at all levels and in all functions of an organization. Control activities include approvals, authorizations, verifications, reconciliations, security over assets, and segregation of duties.

Control activities are directly related to control objectives. Control objectives include the following:

- Strategic – provide reasonable assurance that program goals and objectives are met.
- Operational – make the most effective and efficient use of fiscal resources and other assets.
- Reporting – provide reasonable assurance of the integrity and reliability of financial reporting.
- Compliance – enhance compliance with applicable laws and regulations.
- Stewardship – safeguard assets or reduce fraud, waste, and abuse in the use of assets.

When managers set up control activities to provide reasonable assurance that their objectives are met, they must determine the level of risk that the agency is willing to assume. Therefore, control activities are designed to reflect the appropriate risk level so that risk responses are executed properly and on time. In some cases, a single control activity will address multiple risk responses. It is important for managers to consider cost versus benefit for control activities over processes that are vital to achieving financial reporting or regulatory compliance objectives.

#### TYPES OF CONTROL ACTIVITIES

Control activities can be classified in the following eight broad categories:

**Authorization** – provide reasonable assurance that all transactions are within the limits set by policy or that exceptions to policy have been granted by the appropriate officials.

**Review and approval** – encompass a variety of computer and manual controls that provide reasonable assurance that all accounting information has been correctly captured.

**Reconciliation** – provide reasonable assurance of the accuracy of financial records through the periodic comparison of source documents to data recorded in accounting information systems.

**Physical Security over Assets** – provide reasonable assurance that assets are safeguarded and protected from loss or damage due to accident, natural disaster, negligence, or intentional acts of fraud, theft, or abuse.

**Segregation of Duties** – reduce the risk of error and fraud by requiring that more than one person completes a particular fiscal process.

**Education, Training, and Coaching** – reduce the risk of error and inefficiency in operations by ensuring that personnel have the proper education and training to perform their duties effectively.

**Performance Planning and Evaluation** – establish key performance indicators for the agency that may be used to identify unexpected results or unusual trends in data, which could indicate situations that require further investigation and/or corrective action. This includes reviews of actual performance versus budget, forecasts, and prior periods.

TOPIC	INTERNAL CONTROL	SUB-SECTION 30.30.30
SECTION	COMPONENTS	ISSUANCE DATE JUNE 30, 2008
SUB-SECTION	CONTROL ACTIVITIES - INTRODUCTION	REVISION NUMBER 08-006

Control activities may include preventive, detective, manual, computer, and management controls: Preventive controls are designed to stop inappropriate transactions before execution while detective controls are designed to identify error transactions on a timely basis after they have occurred. Preventive and detective control activities may combine computer and manual controls.

Examples of a variety of preventive and detective control activities are:

To reduce the impact of electric power failure on operations, an agency installs a backup electricity generator for its information systems. To ensure that the generator operates when needed, facilities management performs routine maintenance, and IT managers review the maintenance logs monthly.

To help minimize inventory losses, the warehouse supervisor reviews and approves documents before releasing goods.

To help ensure that only tested and accepted programs are transferred to production libraries, transfers are made only based on completion of testing and related approvals and authorization of the IT and user department managers.

Control activities over automated information systems include general controls and application controls. General controls include controls over information technology management, infrastructure, security management, and software acquisition, development, and maintenance. Application controls focus directly on the capture and processing of complete, accurate, authorized, and valid data. Thus, application controls help to prevent, detect and correct errors.

Agency heads and fiscal officers remain directly responsible for understanding and maintaining internal control over all fiscal policies, regardless of the infrastructure used to perform those processes. Traditional internal control processes focused on "hard" controls (such as physical or electronic controls). Current standards also emphasize "soft control" activities. Soft controls are intangibles that management emphasizes to direct the organization's expectations and behavior.

Examples of soft controls:

- Performance standards for hiring and promotion
- Employee training and education programs
- Encouragement of new ideas and methods
- Periodic employee feedback and interview sessions
- Response to vendor and citizen feedback
- Review and investigation of exception reports
- Effective employee suggestion programs that drive management action

Given limited resources of time, personnel, and funding, agency managers should optimize the effectiveness of their control assessments by concentrating on "significant" fiscal processes. Significant fiscal processes vary by agency and are affected by numerous factors such as organizational structure, program size, complexity, and timing pressure, etc. Agency managers are ultimately responsible for the final determination of significance and must rely on their experience and professional judgment in identifying significant processes.

TOPIC	INTERNAL CONTROL	SUB-SECTION 30.30.30
SECTION	COMPONENTS	ISSUANCE DATE JUNE 30, 2008
SUB-SECTION	CONTROL ACTIVITIES - INTRODUCTION	REVISION NUMBER 08-006

A fiscal process may be significant if it is associated with programs or activities that:

- Consume a proportionally large share of agency resources
- Have a high-degree of public visibility
- Represent areas of concern and high risk to mission-critical business processes
- Have a significant affect on general ledger account balances.

Transaction amounts for a given fiscal process may be insignificant individually or in total, but a qualitative factor may raise the importance of the process in terms of the need for stringent control activities. Therefore, decisions about significance should take into account not only quantitative, but also qualitative factors. For example, management should pay close attention to the design of control activities for any fiscal process that is particularly vulnerable to fraud regardless of the dollar amounts involved because any adverse incident could have a disproportionately bad effect upon management's reputation for honesty and reliability. Likewise, managers should define any fiscal process as significant if errors or misstatements in the process could have adverse consequences for legal or regulatory obligations.

Additional subsections (purchasing and disbursement, cash receipts, and payroll) will enhance your understanding of control objectives and control activities. This information is in not intended to be all-inclusive.

TOPIC	INTERNAL CONTROL	SUB-SECTION 30.30.31
SECTION	COMPONENTS	ISSUANCE DATE JUNE 30, 2008
SUB-SECTION	CONTROL ACTIVITIES - PURCHASING AND DISBURSEMENTS	REVISION NUMBER 08-006

CONTROL ACTIVITIES - PURCHASING AND DISBURSEMENTS

OBJECTIVES

The general objectives of an internal control system as it relates to purchasing and disbursements are as follows:

- Strategic - To ensure the agency receives the goods and services in order to carry out its mission
- Compliance - To ensure that purchases are in accordance with State laws, regulations, and procurement rules
- Operational - To ensure that only requested goods and services are accepted
- Reporting - To ensure that purchases and payments are properly authorized, executed, and recorded
- Operational - To ensure that payments are for goods and services ordered and received
- Compliance - To ensure that the State pays only agreed upon prices for goods and services
- Reporting - To ensure that goods and services are paid from the correct appropriation and budget

CONTROL ACTIVITIES

Control activities are the policies and procedures that help ensure that necessary actions are taken to minimize risks that would inhibit an agency from the achievement of its objectives. In order to ensure that purchasing and disbursement objectives are met, agency management must identify control activities. When establishing controls, management must determine the level of risk it is willing to assume based on such factors as agency size, the number of personnel available, and cost versus benefits. Examples of control activities are:

<u>Control Activity</u>	<u>Example</u>	<u>Control Objective</u>
Segregation of Duties	Responsibilities for PV preparation are separate from approval and separate from the recording of these transactions.	To ensure that purchases and payments are properly authorized, executed and recorded
Segregation of Duties	Duties for purchasing are separate from requisitioning and receiving.	To ensure that purchases and payments are properly authorized, executed and recorded
Review and Approval	Purchases of goods and services are properly authorized ONLY by those designated with this responsibility	To ensure that purchases and payments are properly authorized, executed and recorded

**STATE OF MISSISSIPPI  
DEPARTMENT OF FINANCE AND ADMINISTRATION**

TOPIC	INTERNAL CONTROL	SUB-SECTION 30.30.31
SECTION	COMPONENTS	ISSUANCE DATE JUNE 30, 2008
SUB-SECTION	CONTROL ACTIVITIES - PURCHASING AND DISBURSEMENTS	REVISION NUMBER 08-006

Authorization	Adequate written procedures exist to ensure that goods and service are received prior to payment.	To ensure that payments are for goods and services ordered and received
Review and Approval	Changes to contracts or POs require the same approvals as the original order.	To ensure that purchases and payments are properly authorized, executed, and recorded
Review and Approval	Invoices and PVs are reviewed for completeness and supporting documentation and proper authorizations (preaudit).	To ensure that purchases and payments are properly authorized, executed, and recorded
		To ensure that the State pays only agreed upon prices for goods and services
		To ensure that goods and services are paid from the correct appropriation and budget
Review and Approval	Purchasing and expenditure reports should be reviewed by an appropriate level of management.	To ensure that purchases and payments are properly authorized, executed and accounted for
		To ensure that goods and services are paid from the correct appropriation and budget
Authorization	Support documentation, such as quotes, should be maintained.	To ensure that purchases are made in accordance with State laws, regulations, and procurement rules
Segregation of Duties	The receiving clerk forwards the packing slip to the Accounts Payable Department.	To ensure that payments are for goods and services ordered and received
Reconciliation	Invoice numbers should be accurately entered on the payment voucher to ensure that duplicate payments are not made.	To ensure that purchases and payments are properly authorized, executed, and recorded
Reconciliation	Corrections to accounting records are made in a timely manner according to the MAAPP manual.	To ensure that purchases and payments are properly authorized, executed, and recorded

TOPIC	INTERNAL CONTROL	SUB-SECTION 30.30.31
SECTION	COMPONENTS	ISSUANCE DATE JUNE 30, 2008
SUB-SECTION	CONTROL ACTIVITIES - PURCHASING AND DISBURSEMENTS	REVISION NUMBER 08-006

CONTROL ACTIVITIES - PURCHASING AND DISBURSEMENTS

OBJECTIVES

The general objectives of an internal control system as it relates to purchasing and disbursements are as follows:

- Strategic - To ensure the agency receives the goods and services in order to carry out its mission
- Compliance - To ensure that purchases are in accordance with State laws, regulations, and procurement rules
- Operational - To ensure that only requested goods and services are accepted
- Reporting - To ensure that purchases and payments are properly authorized, executed, and recorded
- Operational - To ensure that payments are for goods and services ordered and received
- Compliance - To ensure that the State pays only agreed upon prices for goods and services
- Reporting - To ensure that goods and services are paid from the correct appropriation and budget

CONTROL ACTIVITIES

Control activities are the policies and procedures that help ensure that necessary actions are taken to minimize risks that would inhibit an agency from the achievement of its objectives. In order to ensure that purchasing and disbursement objectives are met, agency management must identify control activities. When establishing controls, management must determine the level of risk it is willing to assume based on such factors as agency size, the number of personnel available, and cost versus benefits. Examples of control activities are:

<u>Control Activity</u>	<u>Example</u>	<u>Control Objective</u>
Segregation of Duties	Responsibilities for PV preparation are separate from approval and separate from the recording of these transactions.	To ensure that purchases and payments are properly authorized, executed and recorded
Segregation of Duties	Duties for purchasing are separate from requisitioning and receiving.	To ensure that purchases and payments are properly authorized, executed and recorded
Review and Approval	Purchases of goods and services are properly authorized ONLY by those designated with this responsibility	To ensure that purchases and payments are properly authorized, executed and recorded

**STATE OF MISSISSIPPI  
DEPARTMENT OF FINANCE AND ADMINISTRATION**

TOPIC	INTERNAL CONTROL	SUB-SECTION 30.30.31
SECTION	COMPONENTS	ISSUANCE DATE JUNE 30, 2008
SUB-SECTION	CONTROL ACTIVITIES - PURCHASING AND DISBURSEMENTS	REVISION NUMBER 08-006

Authorization	Adequate written procedures exist to ensure that goods and service are received prior to payment.	To ensure that payments are for goods and services ordered and received
Review and Approval	Changes to contracts or POs require the same approvals as the original order.	To ensure that purchases and payments are properly authorized, executed, and recorded
Review and Approval	Invoices and PVs are reviewed for completeness and supporting documentation and proper authorizations (preaudit).	To ensure that purchases and payments are properly authorized, executed, and recorded
		To ensure that the State pays only agreed upon prices for goods and services
		To ensure that goods and services are paid from the correct appropriation and budget
Review and Approval	Purchasing and expenditure reports should be reviewed by an appropriate level of management.	To ensure that purchases and payments are properly authorized, executed and accounted for
		To ensure that goods and services are paid from the correct appropriation and budget
Authorization	Support documentation, such as quotes, should be maintained.	To ensure that purchases are made in accordance with State laws, regulations, and procurement rules
Segregation of Duties	The receiving clerk forwards the packing slip to the Accounts Payable Department.	To ensure that payments are for goods and services ordered and received
Reconciliation	Invoice numbers should be accurately entered on the payment voucher to ensure that duplicate payments are not made.	To ensure that purchases and payments are properly authorized, executed, and recorded
Reconciliation	Corrections to accounting records are made in a timely manner according to the MAAPP manual.	To ensure that purchases and payments are properly authorized, executed, and recorded

TOPIC	INTERNAL CONTROL	SUB-SECTION 30.30.32
SECTION	COMPONENTS	ISSUANCE DATE JUNE 30, 2008
SUB-SECTION	CONTROL ACTIVITIES - CASH RECEIPTS	REVISION NUMBER 08-006

CONTROL ACTIVITIES - CASH RECEIPTS

OBJECTIVES

The general objectives of an internal control system as it relates to cash receipts are as follows:

- Stewardship - To ensure that all monies due the agency are received.
- Reporting - To ensure the proper and prompt recording of all receipts.
- Stewardship - To ensure the proper and prompt deposits of all receipts with the State Treasurer.

CONTROL ACTIVITIES

Control activities are the policies and procedures that help ensure that necessary actions are taken to minimize risks that would inhibit an agency from the achievement of its objectives. In order to ensure that cash receipts objectives are met, agency management must identify control activities. When establishing controls, management must determine the level of risk it is willing to assume based on such factors as agency size, the number of personnel available, and cost versus benefits. Examples of control activities are:

<u>Control Activity</u>	<u>Example</u>	<u>Control Objective</u>
Segregation of Duties	Collection and deposit of cash should be separate from recording receipts and entries in the financial records.	To ensure that all receipts are properly and promptly recorded  To ensure that all receipts are properly and promptly deposited with the State Treasurer.
Segregation of Duties	Cash receipting should be separate from cash disbursing.	To ensure that all receipts are properly and promptly recorded
Authorization	Receipts should be deposited intact and timely in accordance with State statute.	To ensure that all receipts are properly and promptly deposited with the State Treasurer.
Reconciliation	Receipts are balanced to collections on a timely basis.	To ensure that all monies due the agency are received.
Physical Security over Assets	Mail is opened and cash is counted in a central location, which can be observed by other employees.	To ensure that all monies due the agency are received.
Physical Security over Assets	Checks are restrictively endorsed immediately upon receipt.	To ensure that all receipts are properly and promptly recorded in the State's financial records.

TOPIC	INTERNAL CONTROL	SUB-SECTION 30.30.33
SECTION	COMPONENTS	ISSUANCE DATE JUNE 30, 2008
SUB-SECTION	CONTROL ACTIVITIES - PAYROLL	REVISION NUMBER 08-006

CONTROL ACTIVITIES - PAYROLL

OBJECTIVES

The general objectives of the internal control system as it relates to payroll are as follows:

- Reporting - To ensure that the human resource function is separate from the payroll function
- Reporting - To ensure that payroll payments are properly authorized
- Reporting - To ensure that payroll payments are accurately calculated and recorded
- Reporting - To ensure that payroll payments agree with time sheets submitted and approved

CONTROL ACTIVITIES

Control activities are the policies and procedures that help ensure that necessary actions are taken to minimize risks that would inhibit an agency from the achievement of its objectives. In order to ensure that payroll objectives are met, agency management must identify control activities. When establishing controls, management must determine the level of risk it is willing to assume based on such factors as agency size, the number of personnel available, and cost versus benefits. Examples of control activities are:

<u>Control Activity</u>	<u>Example</u>	<u>Control Objective</u>
Segregation of Duties	The responsibilities of authorizing personnel actions, maintaining time records, supervising employees, recording payroll transactions and distributing checks should be handled by different employees	To ensure that the human resource function is separate from the payroll function
Review and Approval	Authorizing, approving, and documenting all changes in employment (new hires and terminations), salary and wage rates, and payroll deductions are accurately reflected on payrolls.	To ensure that payroll payments are accurately calculated and recorded
Authorization	Personnel policies are followed.	To ensure that payroll payments are properly authorized.
Review and Approval	Preliminary payrolls should be reviewed and approved before final payrolls are run.	To ensure that payroll payments are accurately calculated and recorded
Review and Approval	Review and approval of hours worked, overtime hours, and other special benefits by an employee's supervisor.	To ensure that payroll payments are accurately calculated and recorded

TOPIC	INTERNAL CONTROL	SUB-SECTION 30.30.40
SECTION	COMPONENTS	ISSUANCE DATE JUNE 30, 2008
SUB-SECTION	INFORMATION AND COMMUNICATION	REVISION NUMBER 08-006

INFORMATION AND COMMUNICATION

PURPOSE

The information and communication process entails identifying, capturing, and communicating relevant financial and non-financial information in a form and timeframe that enables employees to carry out their responsibilities. Successful communication occurs up, down, and across the agency. This process is effective if all personnel receive a clear message from top management that internal control responsibilities must be taken seriously.

The entire agency needs information to handle risks, provide services, and achieve objectives. Quantitative and qualitative information comes from many internal and external sources. Information enables change management, strategy, identifying events, analyzing risks, selecting risk responses, and performing other management activities. Pertinent information is critical to managing an agency and to an effective management control system. However, information has no value without communication.

INTERNAL COMMUNICATION

Clear internal communication conveys the agency's code of ethics, internal control philosophy and approach, and delegation of authority. Communication about processes and procedures should include clear links to the agency mission and culture and should effectively convey the importance and relevance of internal control and the roles each person plays to support it.

Front-line employees, providing direct, daily public service, are often in the best position to identify new problems. Communication channels should ensure that front-line and other personnel could communicate information across divisions and processes, as well as to their managers.

Communication breakdowns occur when employees are discouraged from or unable to provide important information to others. To avoid breakdowns, personnel must believe managers and agency heads truly want to know about problems and resolve them. In most instances, established agency reporting lines are the appropriate channels for communication. A backup mechanism provides alternate communication lines when normal channels do not work. One such alternate channel is the State Auditor's website to report "Fraud, Waste or Abuse".

EXTERNAL COMMUNICATION

Open external communication channels allow citizens, clients, and suppliers to provide valuable input on quality and design. This enables the agency to address evolving needs, demands, and preferences. Management should appropriately convert such input into continuous improvements in operations, reporting, and compliance.

COMMUNICATION CHANNELS

Agencies communicate through its mission statement, Code of Ethics, internet sites, policy manuals, accounting and financial reporting manuals, memos, e-mails, and posted notices. In addition, communication flows orally and through the actions of management. Whether in large groups, smaller meetings, or one-on-one sessions, vocal tone and body language form part of the message. Management style sends a powerful message. Managers should remember that actions speak louder than words.

INFORMATION SYSTEMS

TOPIC	INTERNAL CONTROL	SUB-SECTION 30.30.40
SECTION	COMPONENTS	ISSUANCE DATE JUNE 30, 2008
SUB-SECTION	INFORMATION AND COMMUNICATION	REVISION NUMBER 08-006

The design of information systems is fundamental to internal control. Technology enables management to monitor processes to ensure that goals and objectives are accomplished. Therefore, information systems are an integral part of the internal control program. Care should be taken in the design of systems so that detailed and reliable data is captured on a timely basis thus strengthening the internal control environment. For each information system used by an agency to process and analyze financial data, the agency should provide a brief description of the system and identify the system's strengths and weaknesses.

The information system relevant to an agency's financial reporting objectives consists of the methods and records established to identify, assemble, analyze, classify, record, and report entity transactions and to maintain accountability for the related assets and liabilities. The quality of system generated financial information affects management's ability to make appropriate decisions in managing and controlling an agency's activities.

Communication involves personnel's understanding of how their activities in the financial reporting information system relate to the work of others. Employees must recognize and report exceptions to an appropriate higher level within the entity.

Information systems may capture economic data, the transactions between the agency and its constituents, citizen complaints, and legislative initiatives. Information systems typically provide on-going monitoring functions and response to special needs. An information system may be formal, such as agency's database; or informal, such as conversations with clients, legislators, or suppliers, and attendance at professional seminars.

The internal control aspect of managing an information system rests with having procedures in place to ensure the consistency and accuracy of data and to ensure a way of integrating changing conditions. An effective system identifies and captures needed data, allowing staff to process the data and report to management in a useful format and in a timely manner.

An effective internal control system depends on an agency's information system and the way executive directors and other managers communicate. The agency's information system and management's communication style also affect the entity's ability to meet its operational objectives.

The quality of an information system affects management's capacity to make sound decisions in directing both operations and control activities. Control activities involve designing an information system that can satisfactorily answer the following questions:

- Is the needed information available?
- Is it timely?
- Is the data correct?
- Is the information easily accessible to appropriate people?
- Is the information secure against inappropriate access?

TOPIC	INTERNAL CONTROL	SUB-SECTION 30.30.50
SECTION	COMPONENTS	ISSUANCE DATE September 8, 2009
SUB-SECTION	MONITORING	REVISION NUMBER 10-004

MONITORING

Monitoring is a process that assesses the quality of the internal control structure's performance over time. It involves assessment by appropriate personnel of the design and operation of controls and taking necessary actions. Monitoring takes place on an ongoing basis as well as through periodic reviews or evaluations.

Monitoring is built into normal, recurring operating activities, is performed on a real-time basis, reacts dynamically to changing conditions, and is ingrained in the agency. Monitoring often stems from regular management activities, which might involve analysis, comparison of information from multiple sources, and dealing with unexpected occurrences. Management monitors through functions such as internal audits, the budget process, and performance evaluations. The monitoring process also includes an analysis of whether exceptions are reported and resolved quickly.

By focusing on relationships, inconsistencies, or other relevant observations, managers perform monitoring to determine if there are any deficiencies requiring corrective action within their area of responsibility. They should identify issues and follow up with others to determine what action is necessary, if any.

A deficiency may signify a weakness, whether the weakness is perceived, potential, or real. Deficiencies provide management an opportunity to strengthen the internal control system. The way senior management responds to these reported breakdowns affects the success of the system as a whole. Agency managers and staff should be encouraged to identify deficiencies in internal control, as this reflects positively on the agency's commitment to recognizing and addressing management problems.

TOPIC	INTERNAL CONTROL	SUB-SECTION 30.40.10
SECTION	AUDIT	ISSUANCE DATE September 8, 2009
SUB-SECTION	THE AUDITOR'S REPORT	REVISION NUMBER 10-004

## THE AUDITOR'S REPORT

### INTRODUCTION

Government auditing provides independent assessments for legislators, government officials, and the public. Such assessments include how:

- government manages public resources and uses its authority properly and in compliance with laws and regulations,
- government programs are achieving their objectives and desired outcomes,
- government services are being provided efficiently, economically, effectively, ethically, and equitably, and
- government managers are fully accountable for their use of public resources.

The U. S. Government Accountability Office (GAO) publishes Government Auditing Standards, commonly known as "The Yellow Book". The Yellow Book provides professional standards and guidance, often referred to as generally accepted government auditing standards (GAGAS), to help ensure that auditors perform with competence, integrity, objectivity, and independence in planning, conducting, and reporting on government audits.

Auditors are to gain an understanding of internal controls by assessing whether specific internal control procedures are properly designed and placed in operation. They conduct specific tests of the effectiveness of the internal control procedures. Based on the test results and the auditors' assessment, the auditors consider whether to modify the nature, timing, or extent of their audit procedures.

For audits of financial statements in which auditors provide an opinion, auditors should report the scope of their testing of internal control over financial reporting and of compliance with laws, regulations, and provisions of contracts or grant agreements. Auditors should report deficiencies in internal control considered significant deficiencies, including material weaknesses.

### STATEMENTS ON AUDITING STANDARDS

All audits are conducted in conformance with the Statements on Auditing Standards (SAS). SAS 55, Consideration of Internal Control in a Financial Statement Audit, contains a detailed discussion of internal control and the following five interrelated components of internal control: the control environment, risk assessment, control activities, information and communication, and monitoring. SAS 115, Communicating Internal Control Matters Identified in an Audit, is applicable whenever an auditor expresses an opinion on financial statements (including a disclaimer of opinion).

SAS 115 requires the auditor to communicate in writing significant deficiencies and material weaknesses to management and those charged with governance. A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control, that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

In determining whether a deficiency in internal control, individually or in combination, is a significant deficiency or material weakness, the auditor evaluates the possible mitigating effects of compensating controls. A compensating control is a control that limits the severity of a deficiency in internal control and prevents it from rising to the level of a

TOPIC	INTERNAL CONTROL	SUB-SECTION 30.40.10
SECTION	AUDIT	ISSUANCE DATE September 8, 2009
SUB-SECTION	THE AUDITOR'S REPORT	REVISION NUMBER 10-004

significant deficiency or, in some cases, a material weakness. Although compensating controls mitigate the effects of a deficiency in internal control, they do not eliminate the deficiency in internal control.

Each of the following is an indicator of a material weakness in internal control:

- Identification of fraud, whether or not material, on the part of senior management
- Restatement of previously issued financial statements to reflect the correction of a material misstatement due to error or fraud
- Identification by the auditor of a material misstatement of the financial statements under audit in circumstances that indicate that the misstatement would not have been detected by the entity's internal control
- Ineffective oversight of the entity's financial reporting and internal control by those charged with governance

Each of the following are examples of circumstances that may be deficiencies, significant deficiencies, or material weaknesses:

Deficiencies in the Design of Controls:

- Inadequate design of controls over the preparation of the financial statements being audited
- Inadequate design of controls over a significant account or process
- Inadequate documentation of the components of internal control
- Insufficient control consciousness within the organization; for example, the tone at the top and the control environment.
- Absent or inadequate segregation of duties within a significant account or process
- Absent or inadequate controls over the safeguarding of assets
- Inadequate design of IT general and application controls that prevent the information system from providing complete and accurate information consistent with financial reporting objectives and current needs
- Employees or management who lack the qualifications and training to fulfill their assigned functions
- Inadequate design of monitoring controls used to assess the design and operating effectiveness of the entity's internal control over time
- The absence of an internal process to report deficiencies in internal control to management on a timely basis.

Failures in the Operation of Internal Control:

- Failure in the operation of effectively designed controls over a significant account or process (example: the failure of a control such as dual authorization for significant disbursements within the purchasing process)
- Failure of the information and communication component of internal control to provide complete and accurate output because of deficiencies in timeliness, completeness, or accuracy (example: the failure to obtain timely and accurate consolidating information from remote locations that is needed to prepare the financial statements)
- Failure of controls designed to safeguard assets from loss, damage, or misappropriation
- Failure to perform reconciliations of significant accounts (example: accounts receivable subsidiary ledgers are not reconciled to the general ledger account in a timely or accurate manner)

TOPIC	INTERNAL CONTROL	SUB-SECTION 30.40.10
SECTION	AUDIT	ISSUANCE DATE September 8, 2009
SUB-SECTION	THE AUDITOR'S REPORT	REVISION NUMBER 10-004

- Undue bias or lack of objectivity by those responsible for accounting decisions (example: consistent understatement of expenses or overstatement of allowances at the direction of management)
- Misrepresentation by entity personnel to the auditor (this is an indicator of fraud)
- Management override of controls
- Failure of an application control caused by a deficiency in the design or operation of an IT general control
- An observed deviation rate that exceeds the number of deviations expected by the auditor in a test of the operating effectiveness of a control.

Nothing precludes the auditor from communicating orally or in writing to management and those charged with governance other matters related to an entity's internal control the auditor:

- Believes to be of potential benefit to the entity, such as recommendations for operational or administrative efficiency, or for improving controls
- Deficiencies that are not significant deficiencies or material weaknesses.

Preferably, the written communication is completed by the report release date but should be no later than 60 days following the report release date.

The existence of significant deficiencies or material weaknesses may be known to management and may represent a conscious decision by management or those charged with governance to accept that degree of risk because of cost or other considerations. Management is responsible for making decisions concerning costs versus the related benefits. In accordance with SAS 115, the auditor is responsible for communicating significant deficiencies and material weaknesses regardless of management's decisions.

#### HOW DO THE INTERNAL CONTROLS AT YOUR AGENCY AFFECT YOUR FINANCIAL AUDIT?

Auditors must gain an understanding of internal controls. A written internal control plan for the auditors to review will provide them with this understanding much faster than if they have to gather all the information themselves through inquiries and observations. A well thought through written internal control plan also provides guidance to employees in the performance of their duties; as well as, provides guidance on effective monitoring of the plan.

Auditors conduct specific tests of the effectiveness of the internal control procedures. Based on the results of these tests, the auditors consider whether to modify the nature, timing, or extent of their audit procedures. If agencies have sufficient and adequate internal control procedures in place, monitor the effectiveness of those controls on a periodic basis, and take corrective action when deficiencies are discovered, positive tests results should occur which will result in no (or few) significant deficiencies cited by the auditor in the report on internal controls.

The Single Audit Report issued on an annual basis contains two reports: "Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in accordance with Government Auditing Standards" and "Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133". In addition to these reports, the Single Audit Report also includes "Management Responses and Corrective Action Plans". The report is available on the Office of the State Auditor's website. The State Agency Management Letter for each agency audited may also be found on the Office of the State Auditor's website.

TOPIC	INTERNAL CONTROL	SUB-SECTION 30.50.10
SECTION	ASSESSMENTS	ISSUANCE DATE November 26, 2013
SUB-SECTION	OVERVIEW	REVISION NUMBER 14-006

OVERVIEW

All agencies are required to perform and document a comprehensive assessment of internal control and control activities on an annual basis. The results of this assessment – findings, conclusions, and corrective action plans are reported in an annual certification to DFA-OFR. Of course, agencies may conduct assessments at any time. Agencies may consider an interim assessment when there has been significant turnover in the management team; a reorganization occurs; implementation of a new program or as a result of budget reductions. In doing so, agencies may be able to take corrective action immediately to resolve any findings discovered. An agency must ensure that it gathers sufficient evidence to complete assessments.

Exhibits provide a starting point in the evaluation of the control environment, agency-level, process-level, and transaction-level control activities, information and communication, and monitoring. These Exhibits can be accessed from the table of contents for the MAAPP Manual on DFA-OFR website. Agency heads and internal control officers are cautioned that these checklists are not designed to be all-inclusive and that these tools cannot replace thorough analysis and informed professional judgment. Agency personnel should customize these tools or develop alternate tools to fit the agency’s particular situation. The agency should also review its internal control plan and ensure that sufficient questions are included in the assessment to cover requirements documented in the plan.

Some of the exhibits ask survey respondents to quantify how strongly they agree or disagree that specific controls are implemented and operating effectively. For those exhibits, descriptions for each score are:

<u>Score</u>		<u>Description</u>
5	=	Strongly Agree
4	=	Agree
3	=	Somewhat Agree
2	=	Somewhat Disagree
1	=	Strongly Disagree
N/A	=	Control does not exist or cannot exist due to agency circumstances

The score assigned may sometimes be subjective but should be based on the knowledgeable and experienced respondent’s understanding about the control in question. This scoring method is not mandatory and appears here for management consideration. Management may devise alternate methods and modify the exhibits accordingly. Certain exhibits and/or questions may not be applicable to an agency. Whichever scoring or answering scheme is used, management should take care to ensure that someone does the assessment with the appropriate background, experience and training in the area under consideration and that instructions are clear so that respondents provide meaningful feedback.

Agencies should consider documenting in the comment section of the assessment tool the policy, procedure or activity that supports the score indicated. The agency should also consider indicating any applicable performance measure used to reach a conclusion. A specific document or internal website may also be referenced to support a response. If the particular control indicated on the assessment tool does not exist but the agency has a mitigating control or determines that there is not an associated risk this should be indicated in the comment or conclusion section. These steps enable the agency to use the assessment tool as documentation to support its internal control plan and risk assessment.

Agencies should consider the need to tailor or expand the assessment tool when applicable. Examples of sections that may be considered based on the size and mission of an agency are: accounts receivable, federal grants, construction, and include Fuelman transactions with the assessment of procurement cards. Other areas that may create a risk to the agency and should be identified and added to the assessment tool based on the size and type of operations of an agency may include: interfacing systems, eligibility determination of recipients, service

**STATE OF MISSISSIPPI  
DEPARTMENT OF FINANCE AND ADMINISTRATION**

TOPIC	INTERNAL CONTROL	SUB-SECTION 30.50.10
SECTION	ASSESSMENTS	ISSUANCE DATE November 26, 2013
SUB-SECTION	OVERVIEW	REVISION NUMBER 14-006

delivery to recipients, regulation/certification of private entities or individuals, agency bank accounts and state and federal reporting.

Agencies are required to develop a written internal control plan. Agencies are also required to maintain adequate written documentation for activities conducted in connection with risk assessments, internal control reviews, and follow-up actions. This documentation is to be available for review by agency management, the Office of State Auditor and DFA-OFR.

TOPIC	INTERNAL CONTROL	SUB-SECTION 30.60.10
SECTION	POLICIES	ISSUANCE DATE MAY 13, 2011
SUB-SECTION	FRAUD, WASTE AND ABUSE	REVISION NUMBER 11-012

FRAUD, WASTE AND ABUSE

INTRODUCTION

Fraud is defined as the use of one's occupation for personal enrichment through the deliberate misuse or misapplication of the employing organization's resources or assets. Examples of fraud include breach of fiduciary duty, bribery, concealment of material facts, theft of money or physical property, theft of secrets or intellectual property, and other statutory offenses.

Waste is defined as the loss or misuse of State resources that results from deficient practices, system controls, or decisions. An example of waste is not taking advantage of an available prompt pay discount.

Abuse is defined as the intentional, wrongful, or improper use of resources or misuse of rank, position, or authority that causes the loss or misuse of resources, such as tools, vehicles, computers, copy machines, etc. Examples of abuse are receiving favor for awarding contacts to certain vendors, requesting employee to perform personal errands for a supervisor or manager, and misusing the employee's position for personal gain.

The State of Mississippi has zero tolerance for the commission of acts of fraud, waste and abuse. State agency employees should be encouraged to report such acts through a hot line or other easily accessed system that promotes confidentiality and anonymity to the extent allowed by law. The Office of the State Auditor has a form on its website that allows any citizen to report fraud, waste and abuse.

All reported acts of fraud, waste and abuse should be investigated thoroughly by the Agency head, the Office of the State Auditor, or other named state investigative body. Whistleblower protection is granted to employees who report suspected fraud, waste and abuse per Miss. Code Sec 25-9-173. Retaliation against such employees who file a report of alleged fraud, waste and abuse in good faith is strictly prohibited.

As appropriate, the Office of the State Auditor or appropriate law enforcement entity shall conduct investigations of potential fraud by State agency employees, public assistance recipients, providers, contractors, or sub grantees. If necessary, State agency employees reporting fraudulent activity will be contacted for additional information.

AGENCY POLICY

Agencies should establish a policy about fraud, waste and abuse that depicts the agency's responsibilities and facilitates employee participation in the prevention and detection of fraud, waste, or abuse. It should detail the requirements for reporting and specify protection for the employee(s) who file a report. The policy should apply to any fraud, waste, or abuse or suspected fraud, waste, or abuse involving any State agency employee (including management), consultant, vendor, contractor, sub-allocant, sub-recipient, outside agency, or person doing business with an agency or in any other relationship with an agency.

Each state agency should identify the chain of command and the reporting method that should be followed when any fraud, waste or abuse is found or suspected and should be clearly stated in the policy. Generally, a state agency employee shall immediately report the activity or the suspected activity to that employee's direct supervisor. If the employee believes that the supervisor is involved with the activity, the employee shall immediately report the activity to the supervisor's manager. If the employee believes that the supervisor's manager and/or the agency director may be involved with the activity, the State agency employee shall either contact the Office of the State Auditor directly or file a complaint via the Office of the State Auditor's website at <http://www.osa.state.ms.us/complaint.asp>.

**STATE OF MISSISSIPPI  
DEPARTMENT OF FINANCE AND ADMINISTRATION**

TOPIC	INTERNAL CONTROL	SUB-SECTION 30.60.10
SECTION	POLICIES	ISSUANCE DATE MAY 13, 2011
SUB-SECTION	FRAUD, WASTE AND ABUSE	REVISION NUMBER 11-012

The agency policy should also include information about how agency vendors, contractors, sub-recipients, sub-allocants and the general public can report fraud, waste or abuse. The agency can establish an internal process or direct the report through the state auditor's office.

The time period allowed for reporting should also be specified. Employees and all others should be directed not to make any attempt to investigate the suspected activity prior to reporting it.

A sample agency policy covering fraud, waste and abuse is in exhibit 30.60.10-A. The sample should be modified to each agency's specifications and should be reviewed periodically, at least annually.

**MONITORING AND ENFORCEMENT**

Any State agency employee who has knowledge of fraud, waste, or abuse, or who has good reason to suspect that such conduct has occurred, shall adhere to the procedures in the agency's policy. It is the policy of the State to thoroughly and expeditiously investigate any reported cases of suspected fraud to determine if disciplinary action, financial recovery and/or criminal prosecution should be taken.

All reports of suspected fraud must be handled under the strictest confidentiality. Only those directly involved in the investigation should be given information. Informants may remain anonymous but should be encouraged to cooperate with the investigators and should provide as much detail and evidence of the alleged fraudulent act as possible. As appropriate, the Office of the State Auditor or appropriate law enforcement entity shall conduct investigations of potential fraud by State agency employees, public assistance recipients, providers, contractors, or sub grantees.

Once an employee or management has been informed of suspected fraud, waste, or abuse (or if management itself suspects fraud, waste, or abuse), management shall either contact the Office of the State Auditor directly or file a complaint via the Office of the State Auditor's website.

The State agency employee shall not attempt to investigate the suspected activity prior to reporting it. Once the agency employee or management has reported the suspected activities to the Office of the State Auditor, the Auditor or other law enforcement entity shall coordinate the investigation of the fraud, waste, or abuse report.

A State agency employee shall not destroy, or allow to be destroyed, any document or record of any kind that the State agency employee knows may be relevant to a past, present, or future investigation of fraud, waste, or abuse.

## SAMPLE FRAUD, WASTE AND ABUSE POLICY

(Agency Letterhead)

It is the policy of the \_\_\_\_\_ (*Agency Name*) of the State of Mississippi to thoroughly investigate any and all suspected cases of fraud, waste and abuse. All reports of suspected fraud, waste and abuse will be handled in the strictest confidence. Informants may remain anonymous, but are encouraged to cooperate fully with investigators and provide as much detail and evidence of the suspected fraud, waste or abuse as possible. State law grants certain protections to whistleblowers, and any retaliation against employees who report suspected fraud, waste and abuse is strictly prohibited (Miss. Code Sec. 25-9-173).

Fraud is defined as the use of one's occupation for personal enrichment through the deliberate misuse or misapplication of the employing organization's resources or assets.

Waste is defined as the loss or misuse of State resources that results from deficient practices, system controls, or decisions.

Abuse is defined as the intentional, wrongful, or improper use of resources or misuse of rank, position, or authority that causes the loss or misuse of resources, such as tools, vehicles, computers, copy machines, etc.

Any State agency employee or contractor of the State who receives a report of suspected fraudulent activity must report this information timely. (*Specify the time period.*) The report of suspected fraud, waste or abuse should not be mere speculation, and should be made in good faith. Any employee who knowingly makes a false report will be subject to disciplinary action. Reports must include enough information to support an investigation. (*Detail here the process of reporting the activity.*)

As appropriate, the Office of the State Auditor or appropriate law enforcement entity shall conduct investigations of potential fraud by State agency employees, vendors, contractors, sub-recipients or sub allocants. If necessary, State agency employees and others reporting fraudulent activity will be contacted for additional information.

*(Detail the steps and chain to follow in reporting suspected activities. Include information for agency employees as well as vendors, contractors, sub-recipients and sub-allocants.)*

Suspected fraud, waste and abuse may be reported directly to the Office of the State Auditor through their website. The contact form is located at <http://www.osa.state.ms.us/complaint.asp>.

TOPIC	INTERNAL CONTROL	SUB-SECTION 30.60.20
SECTION	POLICIES	ISSUANCE DATE MAY 13, 2011
SUB-SECTION	OVERRIDING INTERNAL CONTROLS	REVISION NUMBER 11-012

OVERRIDING INTERNAL CONTROLS

INTRODUCTION

Management's attitude, actions, and values set the tone of an organization, influencing the control consciousness of its people. Internal controls are likely to function well if management believes that those controls are important and communicates that view to employees at all levels. If management views internal controls as unrelated to achieving its objectives, or even worse, as an obstacle, this attitude will also be communicated. Employees are aware of the practices followed by executive management including those that circumvent internal controls. Despite policies to the contrary, employees who note that their managers frequently override controls, will also view internal controls as "red tape" to be "cut through" to get the job done. Management can show a positive attitude toward internal control by such actions as complying with their own policies and procedures, discussing internal controls at management and staff meetings, and rewarding employees for following good internal control practices. Although it is important to establish and implement policies and procedures, it is equally important to follow them.

The responsibility for implementing internal controls at each agency begins with the agency executive director (agency head) and extends to everyone in the agency. Each agency head personally holds the leadership responsible for helping to design, implement, maintain and champion an internal control program that encompasses all agency fiscal programs and related activities. All agency executives, managers and supervisors share this leadership role and should support the agency's internal control philosophy, promote compliance and maintain control within their areas of responsibility.

No matter how well designed and operated, effective internal controls are influenced by certain limitations inherent in all management processes including management override of internal controls. Management override of internal controls is defined as management's intervention in a controlled process by making a decision contrary to the Agency's policy.

AGENCY POLICY

Each agency should develop a policy that prohibits management from overriding internal controls. Management override of internal controls sets the wrong "tone at the top" and should not be tolerated. All agency management is expected to adhere to and enforce internal controls. An acknowledgement of this policy by all levels of agency management should be included in the agency's Internal Control Plan. See Exhibit 30.60.20-A for a sample acknowledgement.

To address the risk of management's ability to override internal controls, the agency head along with other executive management should develop a policy and consider including the following steps to aid in minimizing the risk of overriding controls:

1. Maintain skepticism. With an appropriate attitude about the ever-present risk of management override, executive management can use their knowledge of the agency and related financial statement risks to oversee that risk. In addition, an open display of skepticism, in itself, can be a deterrent to management override of controls.
2. Strengthen understanding of the agency. The identification of fraud-related incentives or pressures begins with each member of executive management obtaining a solid understanding of the agency.
3. Brainstorm to identify fraud risks. Members of the executive management can improve their effectiveness by discussing among themselves the potential for fraud. Possible brainstorming agenda items may include the

TOPIC	INTERNAL CONTROL	SUB-SECTION 30.60.20
SECTION	POLICIES	ISSUANCE DATE MAY 13, 2011
SUB-SECTION	OVERRIDING INTERNAL CONTROLS	REVISION NUMBER 11-012

results of whistleblower hotline calls, fraud risk assessments performed by the agency's internal control officer, and fraud risk factors or concerns identified by members of executive management.

4. Use the code of conduct to assess financial reporting culture. The executive management can use the code of conduct as a benchmark to assess whether the "tone at the top" and management's actions will preserve the highest levels of integrity even when there is the pressure and opportunity to commit fraud.
5. Ensure the entity cultivates a vigorous whistleblower program. The executive management can help create strong antifraud controls by encouraging a culture in which employees view whistleblowing as valuable contribution to both the workplace and their own futures. Successful whistleblowing procedures require strong leadership from the executive management.
6. Develop a broad information and feedback network. The executive management should cultivate a network that extends beyond senior management. Such a network may include internal auditors, independent auditors, and key employees. The executive management may consider meeting periodically with representatives from each of these groups to discuss matters affecting the financial reporting process. Inconsistencies in information obtained from these sources may indicate management override of internal controls.

#### MONITORING

Monitoring for management's overriding of internal controls can be very difficult because it is hard to detect. Ultimately, it is up to management to prevent the overriding of internal controls.

Management needs to be proactive and develop various methods of monitoring. Some examples of ways management can help in monitoring the overriding of internal controls are performing analytical reviews, inspecting round number entries, evaluating the appropriateness of transactions and business relationships, reviewing the last month of the fiscal year, and reviewing non-standard journal entries.

## SAMPLE ACKNOWLEDGMENT OF RESPONSIBILITY TO ENFORCE INTERNAL CONTROLS

(Agency Letterhead)

### Acknowledgement of Responsibility to Enforce Internal Controls

As \_\_\_\_\_ (*Title*) of \_\_\_\_\_ (*Agency*), I acknowledge that it is my responsibility to establish, maintain and enforce the internal control system of the Agency.

I acknowledge that my actions set the "tone at the top." I will not override internal controls either directly or indirectly, knowingly or unknowingly, by policy or action.

Should an unusual circumstance arise that necessitates an override of internal controls, such override shall be fully documented and fully transparent to all management of the Agency, the internal audit function, the State Auditor's Office and the public.

\_\_\_\_\_  
Signature

\_\_\_\_\_  
Date

\_\_\_\_\_  
Title

TOPIC	INTERNAL CONTROL	SUB-SECTION 30.60.30
SECTION	POLICIES	ISSUANCE DATE May 13, 2011
SUB-SECTION	RELATED PARTY AND NEPOTISM	REVISION NUMBER 11- 012

### RELATED PARTY AND NEPOTISM

#### INTRODUCTION

Related party transactions and nepotism can create potential or actual conflicts of interest, and raise questions as to whether these transactions and situations are in the best interests of the State of Mississippi and the public.

A related party is defined as a relationship in which one party has significant influence or control over another party. These relationships may lead to a conflict of interest, either implied or actual. Section 25-4-3, Miss. Code Ann. (1972), defines a public servant as any elected or appointed official, member, officer, director, commissioner, supervisor, chief, head, agent, or employee of the State, political subdivision or any other body politic, or any individual who receives a salary, per diem, or expenses paid in whole or in part out of government funds. Section 25-4-105, Miss. Code Ann. (1972), prohibits a public servant from being involved in any related party transactions to obtain financial benefits for any relative or any business with which he is associated.

The following activities may indicate a related party transaction:

- Acting as a contractor, subcontractor, or vendor, or having a material interest in an entity serving as a contractor, subcontractor, or vendor, for the governmental entity the public servant is associated with;
- Acting as a purchaser at a government sale of the governmental entity the public servant is associated with;
- Accepting compensation to influence a decision of the governmental entity the public servant is associated with;
- Using or disclosing information gained in the course of employment as a public servant for financial benefit.

Nepotism is defined as favoritism or patronage granted to relatives without regard to merit. Section 25-1-53, Miss. Code Ann. (1972), prohibits the hiring of any person related by blood or marriage within the third degree as computed by civil law. These persons include parents, grandparents, great-grandparents, children, grandchildren, great-grandchildren, siblings, nieces and nephews, and aunts and uncles.

#### AGENCY POLICY

Each agency should establish a policy on Related Parties and Nepotism. The policy should address the steps necessary to prevent and correct implied and actual conflicts of interest. See Exhibit 30.60.30-A for a Sample Policy. Some suggested items to include in the policy are as follows:

- A description of related party activities as described in the introduction section.
- A means of reporting related party transactions to the Agency's Internal Audit function or other designee. A sample Related Party Questionnaire is found at Exhibit 30.60.30-B.
- A definition of "immediate family member," i.e., related by blood or marriage within the third degree.
- A prohibition against the hiring of immediate family members in the following situations:
  - There is a direct reporting relationship;
  - The immediate family member will be working in the same program area and in the same work site; or
  - The immediate family members will occupy positions in the same "decision making" process which would compromise internal controls (i.e. decisions regarding approval of contract, payment of fees, or acceptance of proposals).

**STATE OF MISSISSIPPI  
DEPARTMENT OF FINANCE AND ADMINISTRATION**

TOPIC	INTERNAL CONTROL	SUB-SECTION 30.60.30
SECTION	POLICIES	ISSUANCE DATE May 13, 2011
SUB-SECTION	RELATED PARTY AND NEPOTISM	REVISION NUMBER 11- 012

- A recommendation that referrals should come from an employment list, transfer list, recall list, web posting, or Human Resources.
- A prohibition against an employee who is involved in the recruitment and selection process being an immediate family member of a prospective candidate.
- A statement that any applicant who withholds or gives false information regarding personal relationships may be terminated, and a supervisor who knowingly violates this policy may be subject to disciplinary action.
- A statement that supervisors shall not supervise immediate family members or individuals where there may be a conflict of interest, including conflicts that arise from personal relationships.

**MONITORING**

Agencies should perform a review of accounting transactions for any potential related party transactions at least annually. Key members of the management team should complete a Related Party Questionnaire, such as Exhibit 30.60.30-B. These questionnaires should be reviewed periodically for any changes. The new hire process should be monitored to ensure nepotism does not occur.

**SAMPLE AGENCY RELATED PARTY AND NEPOTISM POLICY**

(Agency Letterhead)

The \_\_\_\_\_ (*Agency*) recognizes that Related Party Transactions and Nepotism are in violation of State law, are not in the best interests of the public, and can present potential or actual conflicts of interest.

A related party is defined as a relationship in which one party has significant influence or control over another party. These relationships may lead to a conflict of interest, either implied or actual. Section 25-4-3, Miss. Code Ann. (1972), defines a public servant as any elected or appointed official, member, officer, director, commissioner, supervisor, chief, head, agent, or employee of the State, political subdivision or any other body politic, or any individual who receives a salary, per diem, or expenses paid in whole or in part out of government funds. Section 25-4-105, Miss. Code Ann. (1972), prohibits a public servant from being involved in any related party transactions to obtain financial benefits for any relative or any business with which he is associated.

The following activities may indicate a related party transaction:

- Acting as a contractor, subcontractor, or vendor, or having a material interest in an entity serving as a contractor, subcontractor, or vendor, for the governmental entity the public servant is associated with;
- Acting as a purchaser at a government sale of the governmental entity the public servant is associated with;
- Accepting compensation to influence a decision of the governmental entity the public servant is associated with;
- Using or disclosing information gained in the course of employment as a public servant for financial benefit.

As a public servant, you should immediately notify the Agency if you become aware that you or a family member may be involved in a Related Party Transaction by completing the Related Party Questionnaire and turning it in to \_\_\_\_\_ (*Agency's designee*).

Nepotism is defined as favoritism or patronage granted to relatives without regard to merit. Section 25-1-53, Miss. Code Ann. (1972), prohibits the hiring of any person related by blood or marriage within the third degree as computed by civil law. These persons include parents, grand parents, great-grandparents, children, grandchildren, great-grandchildren, siblings, nieces and nephews, and aunts and uncles.

In accordance with this law, the Agency prohibits the hiring of such family members in the following situations:

- There is a direct reporting relationship;
- The immediate family member will be working in the same program area and in the same work site; or
- The immediate family members will occupy positions in the same "decision making" process which would compromise internal controls (i.e. decisions regarding approval of contract, payment of fees, or acceptance of proposals).

Referrals for potential new hires should come from an employment list, transfer list, recall list, web posting, or Human Resources. Any employee involved in the recruitment and selection process should not be an immediate family member of a prospective candidate. Any applicant who withholds or gives false information regarding personal relationships may be terminated, and any employee involved in the hiring process who knowingly violates this policy may be subject to disciplinary action. Supervisors should not supervise immediate family members where there may be a conflict of interest arising from personal relationships.

Acknowledgement of receipt:

---

Signature

---

Print Name

---

Title

---

Date

## SAMPLE RELATED PARTY QUESTIONNAIRE

(Agency Letterhead)

Employee Name: \_\_\_\_\_

Position: \_\_\_\_\_

Agency: \_\_\_\_\_

Please disclose any related party transactions which may have occurred with the \_\_\_\_\_  
(Agency) for the fiscal year ended June 30, 20\_\_\_. If none, please indicate by writing "None" in the spaces provided  
below.

If related party transactions exist, complete the following:

a. Describe the nature of the relationship.

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

b. Describe the transactions (*when they occurred, the amounts involved*).

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

c. Amounts due to or from related parties at the balance sheet date and the terms and manner of settlement.

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

Any other information that should be disclosed about a potential, implied, or actual related party issue or situation.

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

\_\_\_\_\_  
Signature

\_\_\_\_\_  
Print Name

\_\_\_\_\_  
Title

\_\_\_\_\_  
Date

TOPIC	INTERNAL CONTROL	SUB-SECTION 30.60.40
SECTION	POLICIES	ISSUANCE DATE May 13, 2011
SUB-SECTION	ETHICS	REVISION NUMBER 11-012

## ETHICS

### INTRODUCTION

In April 2003, the Public Company Accounting Oversight Board (PCAOB), which was created by the Sarbanes-Oxley Act of 2002, voted to assume responsibility for establishing auditing standards – a responsibility previously held by the Auditing Standards Board of the American Institute of Certified Public Accountants (AICPA). Among the responsibilities mandated to the PCAOB in the Sarbanes-Oxley legislation was the responsibility for the development of rules governing ethics, independence and quality control for registered accounting firms. Although the Sarbanes-Oxley legislation and the PCAOB oversight apply to the accounting professionals doing business in the private sector, similar efforts are occurring in the public sector.

DFA believes that the State of Mississippi employees serve the public interest in accordance with the highest ethical principles. Those who serve in government should recognize the obligation to be accountable, and the public should reasonably expect that those who serve in government are trustworthy.

An Agency Code of Ethical Conduct should be developed to establish and promote the highest standards of conduct, ethics, integrity, competence and professionalism among agency employees whose responsibilities include the administration of State assets.

### AGENCY POLICIES

The Agency's Code of Ethical Conduct should address the moral, ethical, legal and professional aspects of personal conduct required to be exhibited by all employees of the Agency. The Code should be displayed in areas where it can readily and regularly be seen by all State employees. A sample Code of Ethical Conduct is found at Exhibit 30.60.40-A.

An additional policy should be established for agency employees who work in the accounting and finance areas. The Agency's Code of Ethical Conduct for Accounting and Finance Employees should address the moral, ethical, legal and professional aspects specifically related to accounting and finance activities. A sample Code of Ethical Conduct for Accounting and Finance Employees is found at Exhibit 30.60.40-B.

### MONITORING

Management should review new hire paperwork to confirm that a signed acknowledgement of the Code of Ethical conduct is included for all new employees. New hire paperwork for accounting and finance employees should be reviewed to confirm that a signed acknowledgement of the Code of Ethical Conduct for Accounting and Finance Employees is included in addition to the signed acknowledgement of the Code of Ethical Conduct.

Management should confirm that the Code of Ethical Conduct is displayed in a prominent and easily accessible area, and should review the Code of Ethical Conduct on a recurring basis with all employees. Updated acknowledgements of receipt of the Code of Ethical Conduct should be placed in employees' personnel files.

Management should review the Code of Ethical Conduct for Accounting and Finance employees on a recurring basis with all accounting and finance employees. Updated acknowledgements of receipt of the Code of Ethical Conduct for Accounting and Finance employees should be placed in accounting and finance employees' personnel files.

# SAMPLE AGENCY CODE OF ETHICAL CONDUCT

(Agency Letterhead)

The \_\_\_\_\_ (*Agency Name*) is committed to protecting the safety, health and well being of all employees in our workplace. This commitment includes protecting those employees who make disclosures they reasonably believe evidence serious health or safety violations, policy violations, abuse of authority, fraud, waste, or gross mismanagement of the agency's resources or mission.

Employees should disclose questionable actions to the \_\_\_\_\_ (*Agency Internal Control Function*) or the Human Resources Director and will not be subject to workplace reprisal or retaliatory action.

Personnel matters for which other remedies exist are excluded from this policy. This includes grievances, appointments, promotions, reprimands, suspensions, dismissals, harassment, and discrimination.

## **Mission**

The \_\_\_\_\_ (*Agency Name*) provides services, solutions, regulations, and guidance to its customers to \_\_\_\_\_ (*Agency's purpose*).

## **Vision**

The \_\_\_\_\_ (*Agency Name*) sets a high standard for excellence in pursuit of our mission. We will facilitate change for better government.

## **Public Service**

The employees of the \_\_\_\_\_ (*Agency Name*) are responsible for providing essential services for state government. No job is too large or too small for this agency in pursuit of its mission, and every job is important because we want to make sure government works for our citizens.

When you accepted employment with the \_\_\_\_\_ (*Agency Name*), you accepted a job in public service. We are a public service agency. We expect our employees to be good stewards of Mississippi's financial and physical resources. We expect our employees to be respectful of their co-workers and customers. We also expect our employees to embody the public sector competencies that have been adopted by the Mississippi State Personnel Board. These competencies are quoted directly from Mississippi State Personnel Board job descriptions, and were agreed upon by subject matter experts. Below are characteristics or traits that should be exhibited by all state employees.

**Integrity and Honesty:** Demonstrates a sense of responsibility and commitment to the public trust through statements and actions. Models and demonstrates high standards of integrity, trust, openness and respect for others. Demonstrates integrity by honoring commitments and promises. Demonstrates integrity by maintaining necessary confidentiality.

**Work Ethic:** Is productive, diligent, conscientious, timely, and loyal. Conscientiously abides by the rules, regulations, and procedures governing work.

**Service Orientation:** Demonstrates a commitment to quality public service through statements and actions. Seeks to understand and meets and/or exceeds the needs and expectations of customers. Treats customers with respect, responding to requests in a professional manner, even in difficult circumstances. Provides accurate and timely service. Develops positive relationships with customers.

**Accountability:** Accepts responsibility for actions and results. Is productive and carries fair share of workload. Focuses on quality and expends the necessary time and effort to achieve goals. Demonstrates loyalty to the job and the agency and is a good steward of state assets. Steadfastly persists in overcoming obstacles and pushes self for results. Maintains necessary attention to detail to achieve high level performance. Deals effectively with pressure and recovers quickly from setbacks. Takes ownership of tasks,

performance standards, and mistakes. Has knowledge of how to perform one's job. Knows the organization's mission and functions and how it fits into state government.

**Self-Management Skills:** Effectively manages emotions and impulses and maintains a positive attitude. Encourages and facilitates cooperation, pride, trust, and group identity; fosters commitment and team spirit; works effectively and cooperatively with others to achieve goals. Treats all people with respect, courtesy, and consideration. Communicates effectively. Remains open to new ideas and approaches. Avoids conflicts of interest. Promotes cooperation and teamwork.

**Interpersonal Skills:** Shows understanding, courtesy, tact, empathy, and concern to develop and maintain relationships. Demonstrates cross cultural sensitivity and understanding. Identifies and seeks to solve problems and prevent or resolve conflict situations. Encourages others through positive reinforcement.

**Communication Skills:** Receives, attends to, interprets, and responds to verbal messages and expresses information to individuals or groups effectively. Receives other cues such as body language in ways that are appropriate to listeners and situations. Takes into account the audience and nature of the information; listens to others, attends to nonverbal cues, and responds appropriately. May make oral presentations. Communicates ideas, suggestions and concerns, as well as outcomes and progress throughout the process of an activity. Provides thorough and accurate information.

**Self-Development:** Adapts behavior or work methods in response to new information, changing conditions, or unexpected obstacles. Seeks efficient learning techniques to acquire and apply new knowledge and skills; uses training feedback, or other opportunities for self-learning and development. Develops and enhances skills to adapt to changing organizational needs. Remains open to change and new information and ideas.

**Acknowledgement of Receipt:**

\_\_\_\_\_  
**Signature**

\_\_\_\_\_  
**Print Name**

\_\_\_\_\_  
**Title**

\_\_\_\_\_  
**Date**

## Sample Agency Code of Ethical Conduct For Accounting and Finance Employees

The Accounting and Finance Directors and employees of the Agencies of the State of Mississippi are financial and accounting professionals committed to promoting the highest standards of personal ethics, competence and professional conduct. Therefore, we embrace the following moral, ethical, legal and professional standards as the minimal values to be exhibited by those in Mississippi Government engaged in accounting, financial and budgeting activities. The values are described below:

### ***Integrity***

- Demonstrate loyalty to the State of Mississippi and show respect for the public it serves.
- Exhibit confidence in and support for colleagues, officers and employees of the State.
- Avoid the evidence or appearance of impropriety in any professional dealings.
- Refuse to engage in any activity that jeopardizes your ability to carry out your duties or fulfill your responsibilities.
- Do not prepare, sign or issue any financial information not adhering to professional and legal standards.
- Support the goals of State Government and promote the mission of your agency or department.

### ***Competence***

- Assume the responsibility for your personal continuing professional education and development.
- Maintain a current working knowledge of developments and emerging issues in government finance and accounting.
- Promote the highest standards of professional competence within your organization and among your peers.
- Support and encourage continuous training and development in your professional disciplines.

### ***Professional Conduct***

- Carry out your responsibilities consistent with the highest standards of quality, efficiency and customer service.
- Support compliance with generally accepted accounting principles and auditing standards.
- Comply with all Federal and State regulations and statutes.
- Adopt those technologies that will provide improved performance.

### ***Conflict of Interest***

- Conduct yourself in a manner that will promote public confidence.
- Never engage in any activity that would suggest favoritism or a conflict of interest.
- Do not use public resources for personal or political gain.
- Avoid behavior or associations that might impair your objectivity or independence.
- Honor and adhere to the professional and personal codes of conduct applicable to a public official.

Acknowledgement of Receipt:

---

Signature

---

Print Name

---

Title

---

Date

TOPIC	INTERNAL CONTROL	SUB-SECTION 30.60.50
SECTION	POLICIES	ISSUANCE DATE May 13, 2011
SUB-SECTION	FEDERAL DEBARMENT	REVISION NUMBER 11-012

### FEDERAL DEBARMENT

#### INTRODUCTION

OMB Circular A-102, "Grants and Cooperative Agreements with States and Local Governments," establishes the principles for management of grants and cooperative agreements between the Federal Agencies and State, local, and federally-recognized Indian tribal governments. Section 1.d Debarment and Suspension reads as follows:

"Federal agencies shall not award assistance to applicants that are debarred or suspended, or otherwise excluded from or ineligible for participation in Federal assistance programs under Executive Order 12549. Agencies shall establish procedures for the effective use of the List of Parties Excluded from Federal Procurement or Nonprocurement programs to assure that they do not award assistance to listed parties in violation of the Executive Order. Agencies shall also establish procedures to provide for effective use and/or dissemination of the list to assure that their grantees and subgrantees (including contractors) at any tier do not make awards in violation of the nonprocurement debarment and suspension common rule."

The Federal Government maintains the list of parties who have been excluded from receiving Federal contracts and subcontracts. This list is located at the Excluded Parties List System website at <https://www.epls.gov>. Agencies who are receiving federal grants and awards are required to check the Excluded Parties List before awarding grants and contracts from the federal monies received.

#### AGENCY POLICY

State agencies should establish a policy regarding federal debarment compliance. A sample federal debarment compliance policy is found at Exhibit 30.60.50-A.

In compliance with OMB Circular A-102, Sec. 1.d, state agencies should establish procedures to confirm that their grantees, subgrantees, vendors and/or subvendors are not on the Excluded Parties List (EPL). The Procurement Officer or Awarding Officer should check this list before awarding a contract or grant to verify that the prospective contractor or grantee has not been debarred by the Federal Government, which would indicate an unsatisfactory record of performance and/or integrity. OMB also recommends that state agencies should check the EPL on a regular basis to confirm that their grantees, subgrantees, vendors and/or subvendors have not been added to the list during the contract period. If one of these parties has been added to the EPL, it may indicate a need for closer supervision or additional monitoring procedures.

The policy regarding federal debarment compliance should extend to subgrants awarded by the agency. Sub-recipients and sub-allocants should be required to confirm that their grantees, subgrantees, vendors and/or subvendors are not on the EPL. It is recommended that sub-recipients and sub-allocants check the EPL on a regular basis to confirm that their grantees, subgrantees, vendors and/or subvendors have not been added to the list during the contract period. If one of these parties has been added to the EPL, it may indicate a need for closer supervision or additional monitoring procedures. Contracts and agreements with sub-recipients and sub-allocants may need to be revised to reflect this requirement.

The policy should also include a means of documenting the process and procedures. A sample Debarment Checklist is found at Exhibit 30.60.50-B. A sample Debarment Updated Checklist is found at Exhibit 30.60.50-C.

**STATE OF MISSISSIPPI  
DEPARTMENT OF FINANCE AND ADMINISTRATION**

TOPIC	INTERNAL CONTROL	SUB-SECTION 30.60.50
SECTION	POLICIES	ISSUANCE DATE May 13, 2011
SUB-SECTION	FEDERAL DEBARMENT	REVISION NUMBER 11-012

**MONITORING**

The policy should include a process for updating the vendor documentation and verifying the status of the vendor on the debarment list at specified intervals. Additional supervisory activities or monitoring procedures should be documented on an as needed basis. Internal control procedures should include verifying the documentation outlined by the policy.

## SAMPLE AGENCY FEDERAL DEBARMENT POLICY

(Agency Letterhead)

The \_\_\_\_\_ (*Agency*) recognizes that the effective and efficient management of the State's assets includes confirming to the best of our ability that we do business with individuals and entities that are ethical and responsible.

### **Pre-Contract or Pre-Award**

All grantees, subgrantees, vendors, and subvendors should be checked against the Excluded Parties List maintained by the Federal Government at <https://www.epls.gov> before any award or contract is entered into. This list contains parties who have been excluded from receiving Federal contracts, subcontracts, and federal financial and nonfinancial assistance and benefits. Any party on the EPL is ineligible to do business with the Agency.

The results should be documented on the Debarment Checklist.

### **During the Contract or Award Period**

During the contract or award period, the grantee, subgrantee, vendor or subvendor should be checked against the EPL \_\_\_\_\_ (*monthly, quarterly, or semi-annually*) to determine if they have been added in the interim period. If they have been added, a determination should be made on what, if any, action should be taken. This action could include increasing the supervision of the grantee, subgrantee, vendor or subvendor, expanding monitoring procedures, or terminating the award or contract. The results of interim review, actions and any comments should be documented on the Debarment Update Checklist.

The contracting or awarding officer should ascertain whether the sub-recipient or sub-allocant is checking their grantees, subgrantees, vendors, and subvendors against the EPL on a \_\_\_\_\_ (*monthly, quarterly, or semi-annual*) basis. Results of this determination should be documented on the Debarment Checklist and Debarment Update Checklist.

Acknowledgement of receipt:

\_\_\_\_\_  
Signature

\_\_\_\_\_  
Print Name

\_\_\_\_\_  
Title

\_\_\_\_\_  
Date

## SAMPLE FEDERAL DEBARMENT CHECKLIST

Agency Name: \_\_\_\_\_

Name of Contractor or Grantee: \_\_\_\_\_

Excluded Parties List System:

\_\_\_\_\_ No record for contractor or grantee found in EPLS

\_\_\_\_\_ The contractor or grantee has been debarred for the following reason:

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

Comments and/or Recommended Action:

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

By: \_\_\_\_\_ Date \_\_\_\_\_

Procurement or Awarding Officer

## SAMPLE FEDERAL DEBARMENT UPDATED CHECKLIST

Agency Name: \_\_\_\_\_

Name of Contractor or Grantee: \_\_\_\_\_

Excluded Parties List System:

\_\_\_\_\_ No record for contractor or grantee found in EPLS

\_\_\_\_\_ The contractor or grantee has been debarred for the following reason:

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

Comments and/or Recommended Action:

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

By: \_\_\_\_\_ Date \_\_\_\_\_

Procurement or Awarding Officer