

TOPIC	INTERNAL CONTROL	SUB-SECTION	30.10.00
SECTION	OVERVIEW	ISSUANCE DATE	NOVEMBER 24, 2008
SUB-SECTION		REVISED -	2018

## **OVERVIEW**

The objective of the Internal Control Section is to provide State agencies and departments with resources, guidance and recommendations to improve the State's financial operations and systems integrity. Through a combined effort of evaluation, communication, cooperation and education, our goal is improving operational efficiency, enhancing internal controls and ensuring compliance with laws, policies and procedures.

Section 7-7-3(6) (d), Miss. Code Ann. as amended, requires each agency to maintain internal audit controls covering the agency's financial activities and identify and correct any weakness that could hinder the agency's ability to comply with legal and audit standards. Responsibility for evaluating, designing, and implementing Internal Controls lies with the agency.

Internal Control is a process integrating the activities, plans, attitudes, policies, and efforts of the people within an agency working together to provide reasonable assurance that the agency can achieve its objectives in the following categories:

- Effectiveness and efficiency of operations;
- Reliable financial reporting;
- Compliance with applicable laws and regulations.

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

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Fundamental concepts of Internal Controls include:

- Internal Control affects every aspect of an agency...its people, processes and infrastructure.
- Internal Control is dependent upon people and will succeed or fail depending on the priority given to it.
- Internal Controls are cost-effective and more efficient for each agency's unique operating environment.
- Internal Controls are not stand-alone practices; they are woven into day-to-day activities and responsibilities of managers and staff.
- Internal Control provides reasonable assurance, not absolute assurance.
- Agency Directors are accountable for their agency.
- Agency Directors are responsible for ensuring compliance with Internal Controls.

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.

More information on COSO can be found at:

<https://www.coso.org/Pages/default.aspx>

The Comptroller General of the United States issues standards for internal control for the federal government in the publication Standards for Internal Control in the Federal Government (known as the Green Book). The Green Book adapted COSO's framework for use in the governmental environment. The State of Mississippi adheres to the policies found in the Green Book, which can be downloaded from the following link:

<https://www.gao.gov/greenbook/overview>

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Following is an excerpt from the Green Book outlining the Five Components and 17 Principles of Internal Control. It is strongly suggested that agencies download the Green Book for guidance on developing, implementing, and maintaining effective Internal Controls.

### Control Environment

1. The oversight body and management should demonstrate a commitment to integrity and ethical values.
2. The oversight body should oversee the entity's internal control system.
3. Management should establish an organizational structure, assign responsibility, and delegate authority to achieve the entity's objectives.
4. Management should demonstrate a commitment to recruit, develop, and retain competent individuals.
5. Management should evaluate performance and hold individuals accountable for their internal control responsibilities.

### Risk Assessment

6. Management should define objectives clearly to enable the identification of risks and define risk tolerances.
7. Management should identify, analyze, and respond to risks related to achieving the defined objectives.
8. Management should consider the potential for fraud when identifying, analyzing, and responding to risks.
9. Management should identify, analyze, and respond to significant changes that could impact the internal control system.

### Control Activities

10. Management should design control activities to achieve objectives and respond to risks.
11. Management should design the entity's information system and related control activities to achieve objectives and respond to risks.
12. Management should implement control activities through policies.

### Information and Communication

13. Management should use quality information to achieve the entity's objectives.
14. Management should internally communicate the necessary quality information to achieve the entity's objectives.
15. Management should externally communicate the necessary quality information to achieve the entity's objectives.

### Monitoring

16. Management should establish and operate monitoring activities to monitor the internal control system and evaluate the results.
17. Management should remediate identified internal control deficiencies on a timely basis.

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