

TOPIC	INTERNAL CONTROL	SUB-SECTION 30.20.30
SECTION	REQUIREMENTS	ISSUANCE DATE JUNE 30, 2008
SUB-SECTION	INTERNAL CONTROL PLAN	REVISED - 2018

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 the agency 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. 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.

The development and annual assessment of an internal control 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 received by audit activities. 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 changes in an agency's environment and 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.

Internal controls, no matter how well designed and operated, can provide only reasonable assurance to management regarding achievement of its objectives. 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, including the reality that human judgment can be faulty, and breakdowns can occur because of errors or mistakes.

Preparation of the Internal Control Plan

The State of Mississippi adheres to the policies found in the Standards for Internal Control in the Federal Government (the Green Book). DFA strongly suggests the agency download the Green Book for use in preparing, implementing, and assessing its internal control plan. This document can be found at: <https://www.gao.gov/greenbook/overview>.

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The internal control plan should include the five components of an internal control structure:

- 1) Control Environment
- 2) Risk Assessment
- 3) Control Activities
- 4) Information and Communication
- 5) Monitoring

How detailed the internal control plan is 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

The control environment is the foundation for an internal control system. Management must establish and maintain an environment that sets a positive attitude towards Internal Controls. Management's attitudes, behaviors, and directives demonstrate the integrity and ethical values expected of the agency.

A written mission statement and code of conduct should be prepared and included in the plan. Such statements serve to clarify the agency's functional goals and objectives. They also provide insight into management's beliefs, attitudes, and operating style, and set the expectations for employees.

A statement that affirms management's support of the concept of internal controls should be included in the plan. This will provide 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.

Agency personnel policies and standard operating procedures should be included or referenced by the Internal Control Plan, 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.

To demonstrate management's commitment to recruit and develop competent employees, employee training policies should be documented, along with any continuing education programs.

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The employee performance evaluation process should be documented. An up-to-date organization chart should be included, as well as, a list of your board members, if applicable.

An agency should consider establishing and documenting procedures to periodically analyze employee turnover patterns, particularly among key financial or internal audit staff, to identify any correlation with the emphasis placed on internal control.

An agency should periodically consider reviewing and documenting 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

If the agency has an audit committee, that should be documented as part of the control environment.

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

If there is an internal audit function present within the agency, identify 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 include these items in their plans.

For more information on the Control Environment and its five principles, see the Green Book, page 21 – Control Environment.

Section 2 - Risk Assessment

Management must assess risks the agency faces from both internal and external circumstances as it seeks to achieve the objectives. This assessment provides the basis for appropriate responses and controls. Management should document the risk assessment.

Risks must be identified and evaluated for significance. Not all risks merit a management response or a control. Responses to a risk include acceptance, where no action is taken, avoidance, reduction, and sharing the risk, such as purchasing insurance policy.

Potential for fraud should always be part of the risk assessment. Types of fraud are fraudulent financial reporting, misappropriation of assets, and corruption. The risk of management override of controls should also be considered as a part of fraud risk assessment. Based on the significance of the fraud risks, management should design controls to mitigate the risks.

Risks associated with changes in the agency's environment should also be analyzed. These changes include regulatory legislative, economic, and technological changes.

Assessment of risks should be an ongoing, periodic process.

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For more information on Risk Assessment and its four principles, see the Green Book, page 34 – Risk Assessment.

Section 3 - Control Activities

After the risk assessment, management should design control activities to respond to risks and allow the agency to achieve its objectives. Control activities are the policies, procedures, techniques, and mechanisms that address and mitigate the risks. Management should document the control activity and the risk(s) the activity addresses.

Common control activities include;

- Top-level reviews of actual performance
- Reviews by management at the functional or activity level
- Management of human capital
- Controls over information processing
- Physical control over vulnerable assets
- Establishments and review of performance measures and indicators
- Segregation of duties
- Proper execution of transactions
- Accurate and timely recording of transactions
- Access restrictions to and accountability for resources and records
- Appropriate documentation of transactions and internal control

Source GAO, page 46

For more information on Control Activities and its three principles, see the Green Book, page 44 – Control Activities.

Section 4 - Information and Communication

Management should identify and document the information needed to achieve the agency's objectives and address risks.

Relevant data should be obtained from reliable internal and external sources in a timely manner. This data should be processed into quality information that supports the agency's objectives. This quality information should be communicated to both internal and external users of this information on an appropriate method of communication. The process of gathering information and communication of information along with supporting controls should be documented in the internal control plan.

For more information on Information and Communication and its three principles, see the Green Book, page 58 – Information and Communication.

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Section 5 - Monitoring

Monitoring of the internal control system is essential because internal control is a dynamic process that must continually adapt to a changing and evolving environment. Management should document monitoring activities in the internal control plan. As part of the monitoring process, management should also document any changes that have occurred or are needed on the Internal Control system. Management should also document how Internal Control deficiencies are or will be remediated and reported. For more information on Monitoring and its two principles, see the Green Book, page 64 – Monitoring.