

TOPIC	INTERNAL CONTROL	SUB-SECTION 30.30.10
SECTION	COMPONENTS	ISSUANCE DATE JUNE 30, 2008
SUB-SECTION	CONTROL ENVIRONMENT	REVISED - 2018

CONTROL ENVIRONMENT

The control environment sets the tone of the agency, 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 agency about control and its importance to the agency. 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 agency 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. All agencies should reference the Mississippi State Personnel Board Policy and Procedures Manual, found online at: <http://www.mspb.ms.gov/media/98788/mspb%20pp%20final%20-%20march%201%202019%20for%20web..pdf>

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.

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, it is critical that the state's ethics, laws, policies, and procedures are incorporated.

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.

**STATE OF MISSISSIPPI
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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. Employees need to understand the agency objectives. They also need to understand how their job is crucial to meeting the objectives.

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

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 stay informed of changes in their field of expertise. Training is essential so employees are prepared to handle new challenges as they emerge.