STATE OF MISSISSIPPI
DEPARTMENT OF FINANCE AND ADMINISTRATION

TOPIC	INTERNAL CONTROL	SUB-SECTION 30.30.30
SECTION	COMPONENTS	ISSUANCE DATE JUNE 30, 2008
SUB-SECTION	CONTROL ACTIVITIES - INTRODUCTION	REVISED - 2018

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.

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

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further investigation and/or corrective action. This includes reviews of actual performance versus budget, forecasts, and prior periods.

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

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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, 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.

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 honestly 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.