

# Minnesota Management & Budget Statewide Operating Policy

Minnesota Management & Budget, Internal Controls &  
Accountability Unit  
Issued: January 10, 2012

Number 0102-01  
Revised: N/A

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## Internal Controls

### Objective

To increase management's ability to promote effectiveness and efficiency, safeguard public funds, minimize instances of fraud, waste, and abuse, and ensure compliance with federal and state law by establishing a system of internal controls across the executive branch of the state of Minnesota as required by Minnesota Statute 16A.057. <https://www.revisor.mn.gov/statutes/?id=16A.057>

### Policy

#### General

The head of each executive branch state agency (excluding the Minnesota State Colleges and University system) must design, implement, and maintain an effective system of internal controls. This system must:

1. Safeguard public funds and assets and minimize incidences of fraud, waste, and abuse;
2. Ensure that programs are administered in compliance with federal and state laws and rules; and
3. Require documentation of internal control procedures over financial management activities, provide for analysis of risks, and provide for periodic evaluation of control procedures to satisfy the MMB Commissioner that these procedures are adequately designed, properly implemented, and functioning effectively.

#### Documenting the System of Internal Controls

The Committee of Sponsoring Organizations of the Treadway Commission (COSO) Internal Control-Integrated Framework (COSO Framework) is the state's method for documenting internal controls. Alternative frameworks may be used to document internal controls provided they enable the comprehensive documentation of internal controls in a manner similar to the COSO Framework.

### Definitions

**COSO Framework**—In 1992, COSO published a report titled *Internal Control—Integrated Framework*. This report is often referred to as the "COSO Framework." The COSO Framework consists of five components — Control Environment, Risk Assessment, Control Activities, Monitoring, and Information and Communication. . For more information on the COSO internal Control Integrated Framework go to: <http://www.beta.mmb.state.mn.us/ic-framework>.

**Control Environment**—This represents the first component in the COSO Framework, and refers to the foundation of an effective internal control system which begins with the "tone at the top"—the words and actions of the agency's leadership. Under an effective control environment, employees view internal control as essential and integral to performing their day-to-day job duties. See the Control Environment section on Minnesota Management & Budget's Internal Control Unit website for a more detailed explanation. For more information on Control Environment, and to access the MMB Internal Control & Accountability Unit's Guide to Control Environment Tool, go to: <http://www.beta.mmb.state.mn.us/ic-control-env>.

**Risk Assessment**—This is the second component of the COSO Framework. It involves figuring out what needs to be done and how to decrease the chance of failure and increase the chance of success. See the Risk Assessment section on Minnesota Management & Budget's Internal Control Unit website for a more detailed explanation. For more information on Risk Assessment, and to access the MMB Internal Control & Accountability Unit's Guide to Risk Assessment and Control Activities, go to: <http://www.beta.mmb.state.mn.us/risk-assessment>.

**Control Activities**—This represents the third component in the COSO Framework, and refers to actions taken to reduce risk or to minimize obstacles to accomplishing goals. Examples of control activities include the periodic reconciliation of one accounting system to another, or the preparation of a Request for Proposal (RFP) for a program. For more information on control activities and to access the MMB Internal Control & Accountability Unit's Guide to Risk Assessment and Control Activities, go to: <http://www.beta.mmb.state.mn.us/risk-assessment>.

**Information and Communication**—This represents the fourth component of the COSO Framework. Information includes facts (i.e., data) and opinions. Communication refers to the flow of information from one person or organization to another. Information and communication are critical to the effective operation of an internal control system, flowing to, from, and through each of the other four components. For more on Information and Communication go to: <http://www.beta.mmb.state.mn.us/ic-info-comm>.

**Monitoring Activities**—This is the fifth component in the COSO Framework which relates to actions taken to ensure that control activities are operating as intended. An example of monitoring activities is a periodic review by senior management of reconciliation files to ensure that reconciliations are in fact being prepared. In a grant program, monitoring activities include site visits and desk reviews both of which aim to ensure that grant funds are being properly spent.

#### **See Also**

Internal Control & Accountability Unit website: <http://www.mmb.state.mn.us/fin/ic>.