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Commitment to an effective internal control system

- **All state employees are responsible for effective internal control.**
- **People are the key component of an entity's internal control system.**
- **Building controls into infrastructure increases effectiveness.**

Minnesota state government is large and complex. It is impossible for one, or even a few, employees within an organization to personally oversee everything. Instead, management must rely on many reports, processes, and employees to control agency operations. An effective internal control system provides a framework for this reliance.

Minnesota Management & Budget has taken the first steps to form an Internal Control and Accountability Unit within MMB, pursuant to Minn. Stat. Section 16A.057, which was passed by the Legislature in the 2009 session. The new unit will provide training and guidance to help agencies enhance and monitor the state's internal control system.

MMB Policy 0102-01, *Internal Control*, puts the responsibility for effective internal controls on all state employees. It also mandates the use of the Internal Control – Integrated Framework, a model that the Committee of Sponsoring Organizations (COSO) of the National Commission on Fraudulent Financial Reporting (also known as the Treadway Commission) published in 1992. This framework, often referred to simply as “COSO,” has stood the test of time. It is also the framework generally used by publicly-traded American companies and auditors to document and assess internal control.

COSO defines internal control as a process, effected by individuals within an organization, designed to provide reasonable assurance regarding the achievement of the organization's objectives in the areas of

operating efficiency and effectiveness, reliability of financial reporting, compliance, and safeguarding of assets. Crucial to this definition is the idea that people are the key component of an entity's internal control system. Your organization may have policies and procedures, computer systems, and other features of internal control, but people make the system work. People establish the objectives, put controls into place, and operate the controls.

The COSO framework is comprised of five interrelated components:

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

Internal control is most effective when controls are built into the organization's infrastructure. In future bulletins, we will highlight the various internal control components, discuss their importance, and how they interact to create an integrated system of internal controls.

If you have questions, please contact Jeanine Kuwik, Statewide Internal Control and Accountability Director at (651)201-8148 or Jeanine.Kuwik@state.mn.us.

To review Minnesota Management & Budget Operating Policy and Procedure 0201-01, *Internal Control*, access <http://mn.gov/mmb/accounting/state-financial-policies/ch1.jsp>.