



Honesty, integrity, and ethical behavior: It's good business

- **The best defense against fraud, waste, and abuse is an agency culture of honesty, integrity, and ethical behavior.**
- **Agency management teams create their agency's culture through words, and more importantly, through actions.**

The effectiveness of an agency's internal control structure is dependent upon the honesty, integrity and ethical values of the employees who design, implement, monitor and perform the internal control processes. The COSO Internal Control Framework considers control environment the foundation of an effective internal control structure. Similarly, the statutes and policies addressing employee ethics and behavior form the foundation of an effective control environment.

Establishing an organizational culture of honesty, integrity, and ethical behavior is senior leadership's most critical internal control responsibility. Policy and procedure documents can outline what management wants to happen. However, it is the organization's culture that dictates what actually happens day-to-day; which policies will be followed, bent, or disobeyed.

Senior management teams create their agency's culture through their words and, more importantly, through their actions.

It is not enough to simply communicate ethical values through policies and procedures. Specific guidance and demonstration of what is right and wrong needs to be provided. Management must foster a culture where business ethics are embraced as "mission critical" and where employees at every level of the organization not only know and understand what behaviors are expected, but also understand they will be held accountable for not meeting those expectations.

Fraud. Waste. Abuse. These are frightening and worrisome risks for every executive,

manager and supervisor. They know these problems may exist within their agencies, but violators are difficult to identify and by the time they are detected, it is usually too late, after money and resources have been lost. Prevention is the best defense against these risks. Preventative measures should include both formal employee conduct policies and a retaliation-free way for employees to report potential violations.

Important vehicles for communicating expectations regarding employee conduct are Minnesota Statute Section 43A.38, *Code of Ethics in the Executive Branch* and MMB Operating Policy and Procedure 0103-01, *Code of Conduct for Employees with Accounting, Auditing, Financial Reporting or Tax Filing Duties*. All employees should have a firm understanding of both documents, so that they are clear about the state's expectations when facing ethical dilemmas.

Suggested Action Steps: Ensure code of ethics and code of conduct procedures have been established and communicated by senior management to all employees. In particular, it is imperative that employees are aware of the appropriate channels for reporting possible violations of law and policy.

If you have questions, please contact Mike Thone, Internal Control Specialist at 651-201-8132 or Mike.Thone@state.mn.us.