Internal Control Guide & Resources

Section 3- How to Analyze & Improve Your Agency's Control Environment

The control environment of a state agency sets the tone of the organization and influences the effectiveness of internal controls within the agency. The control environment is the foundation of the COSO internal control framework. Managers must evaluate the internal control environment in their own unit and department as the first step in the process of implementing internal controls.

Analyze the Control Environment

- **Attitude:** Review the unit's control environment including your and any subordinate managers' attitudes and actions. If a specific procedure requires constant exceptions, you are better off changing or eliminating the procedure than establishing an attitude of "rules are made to be broken." Whether you realize it or not, as a manager, you set an example by your behavior. If managers make exceptions to their own procedures whenever they find themselves inconvenienced, staff and contractors will feel they too can also make exceptions whenever they want.
- **Supervision:** Departments with the best control environment attempt to hire qualified individuals while making an effort to retain skilled employees. Their managers train new and current staff to excel at their jobs and to use appropriate internal controls in all areas. They assist their staff by furnishing tools such as job descriptions and policy and procedure manuals that clearly communicate responsibilities and duties. They provide sufficient but not excessive supervision, reviewing to the extent necessary. While they allow as much autonomy as possible to competent, experienced staff, they continue to approve work at critical points to ensure that work flows as intended.
- **Structure:** Managers should develop an organizational structure that clearly defines supervisory responsibilities and chains of command. The structure should also take into account the need to separate certain duties. This structure should be documented through organizational charts made available to all staff.

Your Responsibilities

In your leadership role, you should make every effort to:

- Create a positive control environment
- Create an open workplace where concerns and comments are welcomed and acted upon
- Ensure all duties are performed in an ethical and professional manner

- Endorse and actively support agency systems of internal controls and operational processes
- Communicate and provide training on the importance of delivery of agency objectives and services, and
- Actively encourage agency employees to adhere to the entire Rhode Island code of ethics.

Part of your responsibility for your agency's financial internal controls and processes will require you to be involved in:

- Establishing appropriate internal controls and procedures that allow for the efficient, effective and economical management of the agency's financial resources
- Clearly defining key responsibilities and delegated authority levels
- Evaluating performance on a routine basis and ensure individual accountability for responsibilites
- Completing agency risk assessments and implementing appropriate offsetting controls and processes, with particular attention, where necessary, to areas with potential for fraud
- Establishing processes and standards for reporting on operational and financial performance
- Establishing appropriate lines of reporting
- Monitoring the effectiveness of agency controls and processes through results reported to executive management, and
- Ensuring ongoing training for staff about financial internal controls and processes.

Staff Responsibilities

Staff also needs to play a role in ensuring internal controls are operating effectively to achieve the agency's objectives and services. If a staff is aware of any deficiencies in internal controls he/she is responsible to report it to management.

Control Objectives to Implement

1. Management emphasizes the importance of internal control through its attitude, actions, and values, and communicates this tone to all employees.
2. Management adheres to a code of conduct and other policies regarding acceptable business practices, conflicts of interest, or expected standards of ethical and moral behavior, and communicates these policies to all employees.
3. Management takes appropriate disciplinary action in response to departures from approved policies and procedures or violations of the code of the conduct.
4. A strategic plan and mission statement are in place to provide guidance and assistance to management.
5. Organizational structure is defined, updated, and communicated to all employees with adequate and appropriate reporting relationships.

6. Qualified and trained personnel are hired to help ensure control procedures are followed and resources used efficiently.
7. Current job descriptions are established detailing the responsibilities and qualifications for each position.

After you have taken a more proactive approach to your responsibilities and implemented the above control objectives, it would be helpful to perform another analysis of your agency's control environment.

Analysis of Control Environment- Tips to Remember

- Do not focus internal control tests exclusively on activity-level controls; the control environment needs to be evaluated and tested on a routine basis.
- Establish a benchmark to gauge internal control effectiveness.
- Use different testing techniques to gather information about the control environment from a broad range of personnel.