

Internal Controls: Frequently Asked Questions

Why are internal controls important?

The overall purpose of internal control is to help an agency achieve its mission and accomplish certain goals and objectives. An effective internal control system helps an agency to:

- Improve accountability in achieving the agency's mission;
- Promote orderly, economical, efficient and effective operations;
- Produce quality products and services consistent with the agency's mission;
- Safeguard resources against loss due to waste, abuse, mismanagement, errors and fraud;
- Promote adherence to statutes, regulations, bulletins and procedures; and,
- Develop and maintain reliable data and accurately report that data in a timely manner.

Who is responsible for internal controls?

Internal controls are the responsibility of all employees of the agency; generally an employee's position will determine the extent of their involvement. Management establishes missions and objectives, implements controls, and evaluates the internal control system. However, agency personnel have the major roles in implementing and operating an effective internal control system. Internal control is people-dependent; it is developed by people, it guides people, it provides people with a means of accountability, and people carry it out. While everyone in an agency has responsibility for ensuring the system of internal control is effective, the greatest amount of responsibility rests with the managers of the agency. Internal controls are the structure, policies, and procedures used to ensure that management accomplishes its objectives and meets its responsibilities.

Does having strong internal controls guarantee success?

Due to limitations inherent in all internal control systems, internal controls only provide reasonable assurance that an agency will be successful and achieve its objectives. Breakdowns in internal controls can occur due to simple mistakes or faulty judgments, or controls can be circumvented through collusion or management override.

What are the important dates?

The effective date of [Management Directive 325.12, Standards for Internal Controls in Commonwealth Agencies](#) is July 1, 2015. The first related deliverables are due to the Office of the Budget, Office of Comptroller Operations, Bureau of Quality Assurance by September 30, 2017 for the fiscal year ended June 30, 2017.

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Deliverables include:

- Completed internal control assessment for each assessable unit identified by the agency;
- Annual statement of assurance on the effectiveness of the agency's internal controls; and,
- The agency's internal control monitoring plan.

Assurance statements are due annually thereafter on September 30 for the previous fiscal year (accompanied by updated internal control assessments and monitoring plans).

The management directive is effective July 1, 2015, but the initial assurance statement isn't due until September 30, 2017. What time period does the initial assurance statement cover?

The initial assurance statement will cover the internal controls in place as of June 30, 2017. Agencies were given two years from the effective date of the directive to complete their initial assessments due to the amount of work that may be required establishing oversight bodies, determining assessable units, training, etc. Agencies are encouraged to use this time to identify and document internal controls, identifying any control weaknesses, and to develop their monitoring plan.

Who should conduct the assessment of internal controls?

It is recommended, but not required, that each assessable unit have a designated individual responsible for the assessment. These individuals should be knowledgeable of the key processes and systems being assessed. These individuals must be able to document the processes, systems, and identify key controls.

What is management's responsibility with respect to the type of testing necessary to provide adequate support for its assurance?

There is not a "one size fits all" approach to the type of testing that is required to support management's assurance statement. Management has the best understanding of the agency, its associated risks, and the controls in place to mitigate risk. Therefore, management can and should use discretion when developing the testing approach that is required to support its statement of assurance. Management has the option to use any testing method that is cost effective and does not compromise the integrity of the assessment.

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Will training be provided?

An initial training was provided in October 2015. The Office of the Budget, Office of Comptroller Operations is anticipating offering a follow-up training for all interested agencies in March or April of 2016. As the training is finalized, we will provide the dates and times of the sessions and request participant information.

Does this directive relate to Federal funding and programs only?

The internal control environment within the agency includes all programs and funding streams (State and Federal funding), as well as program and financial related controls. Though the Government Accountability Office's (GAO) Green Book model is being followed, the associated principles and attributes are relevant to all types of public funding.

Should all assessable units participate in the assessment of internal controls?

Information related to the determination of assessable units is contained in the internal control monitoring plan guidance. It is the responsibility of agency management to develop criteria by which to select those for inclusion in the internal control assessment process. Each agency is being asked to provide an annual internal control system assurance statement and has to assure itself that the selected assessable units will furnish a reasonable basis to do so.

Can support functions be considered assessable units?

Support functions can be considered assessable units. Other agency assessable units may be relying on support functions to provide some type of control, i.e. service, oversight, protection, etc. Agency management should have procedures in place to ensure that internal controls associated with support functions are in place and are effective.

The management directive requires agency management to “obtain independent reports for all service organizations that support agency processes to confirm the operating effectiveness of the service organization’s controls.” What are our options to comply with this requirement?

In accordance with the management directive, agencies must evaluate all service organizations, assess the impact, and document the evaluation. The [service organization guidance worksheet](#) identifies types of independent reports agencies should consider when evaluating service organization requirements. Note that there are times when an agency will be utilizing a service organization in which the cost of an independent report would outweigh the benefit the report would provide; especially if the services being provided are not mission critical or financial in nature. In cases such as this, management could

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implement other procedures/requirements/checks to confirm the operating effectiveness of the service organization's controls in-lieu of an independent report. The [service organization guidance worksheet](#) further notes other means by which the agency could evaluate their service providers. Note that in most instances some form of independent report requirement is the best means for the agency to confirm operating effectiveness of the service provider's controls. Once a determination is made, resulting requirements should be outlined in the contract with the service provider and the agency must implement procedures to ensure compliance with the contract.