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☒ Mandatory
☐ Informational
☐ Best Practice
☐ Other

TECHNICAL ASSISTANCE

Date: 01/20/2023

Contact: policy@dwd.in.gov

Program: Indiana Department of Workforce Development (DWD)

Subject: DWD Technical Assistance 2022-07
Internal Control Standards

Purpose

The purpose of this technical assistance is to inform DWD staff of State Board of Accounts (SBOA) standards for internal control, consistent with IC 5-11-1-27.

References

- State Budget Agency (SBA) Financial Management Circulars (FMC) 6.1 *Internal Control Standards*[1]
- SBOA *Uniform Internal Control Standards for Indiana Political Subdivisions*[2]
- United States Government Accountability Office *Standards for Internal Control for the Federal Government* (informally known as the "Green Book")[3]
- IC 5-11-1-27

Content

IC 5-11-1-27 provides that internal control standards shall be defined by political subdivisions in order to promote government and accountability. SBOA sets forth minimum levels of internal control standards in its *Uniform Internal Control Standards for Indiana Political Subdivisions* manual. All entities subject to SBOA audits are required to adhere to these standards, including state agencies.

FMC 6.1 requires agencies to ensure that all employees are informed of and receive training concerning the internal control standards and policies adopted by the agency. SBOA training materials on internal control standards and processes are currently available online,[4] and all DWD employees are encouraged to review them.[5]

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[1] https://www.in.gov/sba/files/FMC-6.1-Internal-Control-Standards-January-1,-2022.pdf
[2] https://www.in.gov/sboa/files/UniformInternalControlStandards.pdf
[3] https://www.gao.gov/greenbook
[4] https://www.in.gov/sboa/political-subdivisions/internal-control-standards/
[5] DWD will share any agency specific trainings as developed.

In addition, internal controls are a key part of the federal funding financial management system process. As such, they are a regular part of US Department of Labor (USDOL) review.[6]

Purpose of Internal Control

SBOA defines internal control as follows:

- Internal control is a process executed by officials and employees that is designed to provide reasonable assurance that the objectives of the political subdivision will be achieved;
- It is a basic element fundamental to the organization, rather than a list of added on tasks;
- It is an adaptable process that is a means to an end, not an end in itself;
- It is focused on the achievement of objectives; and
- It is dependent on officials and employees for effective implementation.

The internal control system helps provide the public with assurances that resources are used effectively, efficiently, and in compliance with all federal and state laws, regulations, and policies. The internal control system has the following additional purposes:

- Ensuring obligations and costs comply with applicable law.
- Safeguarding funds, property, and other assets and resources against waste, loss, unauthorized use, and misappropriation.
- Properly recording and accounting for revenues, expenditures, and transfers of assets, resources, or funds applicable to operations to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the state's resources.
- Ensuring funds held outside the State Treasury are managed, used, and obtained in strict accordance with the terms of their enabling authorities and that no unauthorized funds exist.

Components and Principles of Internal Control System

The internal control system is designed to operate as an integrated whole but is best understood through its independent parts. The five (5) components of the internal control system are outlined in IC 5-11-1-27(d) and further defined in FMC 6.1:

1. Control environment: the foundation for an internal control system that provides the discipline and structure to help a state agency achieve its objectives.
2. Risk assessment: an assessment of the risks facing the State agency as it seeks to achieve its objectives and provides the basis for developing appropriate risk responses.
3. Control activities: the actions management establishes through policies and procedures to achieve objectives and respond to risks in the internal control system.
4. Information and communication: the quality of vital information used and communicated to achieve the State agency's objectives.
5. Monitoring: the activities management establishes and operates to assess the quality of performance over time and promptly resolve the findings of audits and other reviews.

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[6] For more information, staff can consult the USDOL Core Monitoring Guide:
https://www.dol.gov/sites/dolgov/files/ETA/grants/pdfs/2%20CMG%20CoreMonitoringGuide_FINAL_20180816(R).pdf

Each component is necessary for the effective operation of an internal control system.

These components are supported by seventeen (17) principles:

- Control environment:

  - **Principle 1**: The oversight body and management demonstrate a commitment to integrity and ethical values.
  - **Principle 2**: The oversight body oversees the entity's internal control system.
  - **Principle 3**: Management establishes an organizational structure, assigns responsibility, and delegates authority to achieve the political subdivision's objectives.
  - **Principle 4**: Management demonstrates a commitment to attract, develop and retain competent individuals.
  - **Principle 5**: Management evaluates performance and holds individuals accountable for their internal control responsibilities.

- Risk assessment:

  - **Principle 6**: Management defines objectives clearly to enable the identification of risks and defines risk tolerances.
  - **Principle 7**: Management identifies, analyzes, and responds to risk related to achieving the defined objectives.
  - **Principle 8**: Management considers the potential for fraud when identifying, analyzing, and responding to risks.
  - **Principle 9**: Management identifies, analyzes, and responds to significant changes that could impact the internal control system.

- Control activities:

  - **Principle 10**: Management designs control activities to achieve objectives and respond to risks.
  - **Principle 11**: Management designs the political subdivision's information system and related control activities to achieve objectives and respond to risks.
  - **Principle 12**: Management implements control activities through policies.

- Information and communication:

  - **Principle 13**: Management uses quality information to achieve the political subdivision's objectives.
  - **Principle 14**: Management internally communicates the necessary quality information to achieve the political subdivision's objectives.
  - **Principle 15**: Management externally communicates the necessary quality information to achieve the entity's objectives.

- Monitoring:

- o **Principle 16**: Management establishes and operates monitoring activities to monitor the internal control system and evaluate the results.
- o **Principle 17**: Management remediates identified internal control deficiencies on a timely basis.

DWD follows guidance and standards from SBA, SBOA, and the State Accounting Manual in its own internal control system. This includes adaptation of the United States Government Accountability Office's Standards for Internal Control for the Federal Government, informally known as the "Green Book." DWD staff are encouraged to review Chapter 2 of the State Accounting Manual for additional information and guidance on these standards.[7]

Responsibilities for Internal Control

FMC 6.1 specifies that DWD's commissioner is responsible for effectively and efficiently managing the agency and establishing, implementing, and maintaining an effective system of internal control. This responsibility includes documenting the system, communicating and training employees on system requirements, and ensuring that the system is functioning as prescribed and is modified, as appropriate, for changes in conditions.

DWD agency management at all levels must be involved in assessing and strengthening the systems of internal control to minimize fraud, errors, abuse, and waste of government funds. All DWD staff share in this responsibility.

Additional Information

Questions regarding the content of this publication should be directed to policy@dwd.in.gov.

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[7] https://www.in.gov/sboa/files/CH02-Internal-Control.pdf