

Internal Control Standards – (FMC 6.1 – January 1, 2022)

Section 1 – Background: Effective systems of internal control provide the foundation upon which a structure of public accountability must be built. Active oversight processes, including regular and ongoing monitoring processes, for the prevention and early detection of fraud and errors in program administration are vital to public confidence and the appropriate and efficient use of public resources.

Effective systems of internal control are necessary to ensure that State resources are adequately safeguarded, monitored, and administered. Fraud and errors in State programs are more likely to occur from a lack of effective systems of internal control in State agencies when active monitoring measures are not maintained to ensure that controls are functioning properly.

Section 2 – Definitions of Internal Control Elements: The internal control framework consists of the following five interrelated components:

- 1) “Control environment” means the foundation for an internal control system that provides the discipline and structure to help a State agency achieve its objectives.
- 2) “Risk assessment” means 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” means the actions management establishes through policies and procedures to achieve objectives and respond to risks in the internal control system.
- 4) “Information and communication” means the quality of vital information used and communicated to achieve the State agency’s objectives.
- 5) “Monitoring” means the activities management establishes and operates to assess the quality of performance over time and promptly resolve the findings of audits and other reviews.

Section 3 – Purpose of System of Internal Control: The system of internal control shall provide assurance that:

- 1) resources are utilized efficiently, effectively, and in compliance with applicable law;
- 2) obligations and costs are in compliance with applicable law;
- 3) funds, property, and other assets and resources are safeguarded against waste, loss, unauthorized use, and misappropriation;
- 4) revenues, expenditures, and transfers of assets, resources, or funds applicable to operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the State’s resources; and
- 5) 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.

Section 4 –Agency Objectives: When designing an agency’s system of internal control, management should consider the following objectives:

- 1) Ensuring that all transactions are properly authorized in accordance with agency policies.
- 2) Ensuring that accounting records are properly designed.
- 3) Ensuring adequate security of assets and records.
- 4) Planning for adequate segregation of duties or compensating controls.
- 5) Verifying the existence and valuation of assets and liabilities and periodically reconcile them to the accounting records.
- 6) Performing analytical procedures to determine the reasonableness of financial data.
- 7) Ensuring the collection and compilation of the data needed for the timely preparation of financial statements.
- 8) Monitoring activities performed by service organizations.
- 9) Documenting and preserving evidence to substantiate critical decisions, transactions, and policies and procedures.
- 10) Completing a cost-benefit analysis to ensure the cost of controls does not exceed their benefit.

Section 5 – Minimum Design Requirements for System of Internal Control: The elements of an effective system of internal control shall include, but are not limited to, the following:

- 1) A plan of organization that provides segregation of duties appropriate for proper safeguarding of State agency assets.
- 2) A plan that limits access to State agency assets to authorized personnel who require these assets in the performance of their assigned duties.
- 3) A system of policies and procedures adequate to provide compliance with applicable laws, criteria, standards, and other requirements.
- 4) An established system of practices to be followed in performance of duties and functions in each of the State agencies.
- 5) Personnel of a quality commensurate with their responsibilities.
- 6) An effective system of internal review.
- 7) A technology infrastructure to support the completeness, accuracy, and validity of information processed.

Additional information, guidance, and case studies regarding internal control standards are contained in State Board of Accounts (SBOA) *Uniform Internal Control Standards for Indiana Political Subdivisions* manual.

Section 6 – Responsibilities of Agency Head: The head of every State agency 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 system requirements to employees, and ensuring that the system is functioning as prescribed and is modified, as appropriate, for changes in conditions.

The agency head shall ensure that personnel receive training concerning the internal control standards and procedures adopted by the agency.

Section 7 – Responsibilities of Agency Management: All levels of management of State agencies must be involved in assessing and strengthening the systems of internal control to minimize fraud, errors, abuse, and waste of government funds.

Section 8 – Regular Evaluation and Monitoring: The systems of internal control of each State agency shall be evaluated on an ongoing basis through regular and ongoing monitoring processes and, when detected, weaknesses must be promptly corrected.

Internal control procedures also require evaluation and adjustment on a regular basis to accommodate the impact of future changes, such as personnel changes, newly elected officials, new programs, new technology, new laws, or financial fluctuations. For example,

- New employees receive training on internal controls and employee policies.
- New software requires a reevaluation of policies and procedures to determine if existing controls will continue to be effective and if new controls need to be designed and implemented. (Procedures that worked well under a manual or a previous software system may no longer be applicable under the new system).
- A change in reporting requires a review of internal controls over the compilation of the report.
- A reduction in staff requires a revision to segregation of duties.


Section 9 – Certification: Included with each biennial budget submission to the Office of Management and Budget (OMB), the head of each State agency shall prepare a certification that:

- 1) The agency's internal control standards and procedures fully comply with the requirements of this FMC;
- 2) All personnel, who are not otherwise on leave status, have received training on the system of internal controls as required by Section 6; and
- 3) No material weaknesses or significant deficiencies in the agency's system of internal controls have been identified.

If the internal control standards and procedures do not fully comply with the requirements of this FMC, the certification shall include a report describing any material weaknesses in the system of internal control and the plans and schedule for correcting the weaknesses, or a statement of the reasons why the weaknesses cannot be corrected.

The form of the certification is included at the end of this FMC.

Section 10 – Corrective Action Plans: If a State agency needs to submit a corrective action plan for any SBOA or federal audit findings, the State agency must submit the corrective action plan to their budget analyst for approval by OMB and State Budget Agency (SBA) before submission to SBOA or the federal entity.



Zachary Q. Jackson, Director
State Budget Agency

INTERNAL CONTROL CERTIFICATION FOR STATE AGENCIES

I, _____, holding the position of _____
(print name) (position or title)

and serving as the agency head or authorized representative for _____
(State agency)

certify that, except as identified in the report attached to this certification:

- 1) The agency's internal control standards fully comply with the requirements of FMC 6.1;
- 2) All agency personnel, who are not otherwise on leave status, have received training on the system of internal controls as required; and
- 3) No material weaknesses or significant deficiencies in the agency's system of internal controls have been identified.

If the agency's internal control standards and procedures do not fully comply with the requirements of FMC 6.1, I have attached to this certification a report describing any material weaknesses in the system of internal control and the plans and schedule for correcting the weaknesses, or a statement of the reasons why the weaknesses cannot be corrected.

Signature

Date