

Internal Control Officers

July 2024

Session Two:

*Addressing Risk through
Internal Control Development*



July Session Two - Topics

- Responding to Identified Risk
 - ✓ Addressing the Root Cause
 - ✓ Addressing all Components
 - ✓ Documenting the Response
 - ✓ Control Development Tools and Examples

- Information for the OMB Portal

Manuel Mendez - Director, Agency/Program Continuous Improvement

- ✓ How to Use the Portal
- ✓ What Information is Required





What are the upcoming action items?

July Training and Collaborative Sessions

- Gain an Understanding of the Internal Control Guidelines

Due September 1

- Top Three Risks & Mitigation Plan
- Audit or Review Findings in FY 2024 with proposed plans for resolution
- Progress Report on previously reported corrective action plans and top three risks

Risk Assessment



Define Objectives

What are we trying to accomplish?



Identify Risks to Objectives

What can go wrong?



Prioritize

Impact and Likelihood

Top Three Risks



Respond

Accept, Avoid, Reduce, Share

Uniform Compliance Guidelines on Internal Control

Part One: Risk Assessment Principles and Points of Focus – page 20

Part Two: Conducting a Risk Assessment – page 45

Part Three: Risk Assessment Template – in.gov/sboa – resources – Development Tools

Part Three: Example Objectives & Risks – page 123

Now What?

Which components of internal control must be developed to address the risk?

Do we already have controls in place to reduce the risk?

- Have we evaluated existing controls?
- Are all components present and functioning?



Control Development Questionnaire

Control Development Questionnaire

(An optional tool to be used in conjunction with Uniform Compliance Guidelines on Internal Controls for State and Quasi Agencies)

Through risk assessment, management will identify the top risks facing the agency. Management may use this tool to create and document a plan to respond to each identified risk. It may also serve as a template for the resolution of audit findings. This is an **optional tool** that follows steps outlined in the *Uniform Compliance Guidelines on Internal Controls for State and Quasi Agencies*. A similar tool is available in Excel format. Management may modify this tool to meet the needs of the agency or decide that other methods are more suitable.

SBOA State
Internal Control
Officers Team >
General >
Files >
Tools >
Development
Tools

Control Development Template

| | A | B |
|---|---|---|
| 1 | Instructions - Control Development Template | |
| 2 | | |
| 3 | A full-bodied internal control system addresses each internal control principle. Through risk assessment, management will identify the top risks facing the agency. Management may use this tool to create and document a plan to respond to each identified risk. This optional tool follows steps outlined in the <i>Uniform Compliance Guidelines on Internal Controls for State and Quasi Agencies</i> . A similar tool is available in a questionnaire format. Management may modify this tool to meet the needs of the agency or decide that other methods are more suitable. | |
| 4 | | |
| 5 | Identified Risk. The identified risk section consists of key risks identified during the risk assessment process for which controls will be developed. | |
| 6 | | |
| 7 | Control Activities. In this section, management will determine and document the most effective and efficient control activities to mitigate the risk. This section follows steps outlined in Part Two – Section Three: Developing Control Activities. See this section and other portions of the uniform compliance guidelines for more detail and best practices to develop control activities. | |
| 8 | | |
| 9 | Information and Communication. Management must establish proper communication channels and determine suitable information needed for control activities and monitoring processes to be successful. In this section, management considers quality information, internal and external communication channels, and safeguarding of information. This section follows steps outlined in Part Two – Section Four: Developing Information and Communication Processes. See this section and other portions of the uniform compliance guidelines for more detail and best practices to address the Information and Communication component. | |

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Root Cause Activity

- Samantha Nance,
Manager
- *State Advisory Services*





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Control Development Activity

Control Activities

Principle 10: Management designs control activities to achieve objectives and respond to risks.

Principle 11: Management designs the information system and related control activities to achieve objectives and respond to risks.

Principle 12: Management implements control activities through policies.

Uniform Compliance Guidelines on Internal Control pages 24-26



Control Activities

Suggested Steps

Uniform Compliance Guidelines
on Internal Control pages 59-68



Design Control Activities

What preventative or detective controls will be effective?

Segregation of Duties

Review and Approval

Authorization

Verification

Supervision

What controls will be needed for the information system?

Document Control Activities

How will control activities be documented?

- ✓ Standard Operating Procedures (SOP)
- ✓ Narrative
- ✓ Flowchart
- ✓ Other

What will be the tangible evidence that procedures were performed?

Communicate Control Activities

How will responsibilities be communicated?

- Newsletter
- Staff Meetings
- Webinar
- Training Sessions
- Other

When, or how often, will responsibilities be communicated?

Reference or file location for the communication: _____

Information and Communication

Principle 13: Management uses quality information to achieve agency objectives.

Principle 14: Management internally communicates the necessary quality information to achieve agency objectives.

Principle 15: Management externally communicates the necessary quality information to achieve agency objectives.

Uniform Compliance Guidelines
on Internal Control pages 26-28



Information and Communication

Suggested Steps

Uniform Compliance Guidelines
on Internal Control pages 73-78



Identify Information Requirements



Gather Quality Data



Process the Information



Establish Internal Communication Pathways



Establish External Communication Channels

Identify Information Needed

What information is needed for the control activities and monitoring processes selected to address the identified risk?

Where is this information found?

How is it accessed?

Establish Internal Communication Pathways



To whom should this information be communicated?



How will the designated person use the information?



When/how often will the information be communicated?

What is the best method?

- Microsoft Teams Meetings
- Webinars
- Dashboards
- Newsletters
- Emails
- Policies and SOPs
- Regular Staff Meetings
- Inhouse Training Sessions
- Other (describe)

Monitoring

Principle 16: Management establishes and operates monitoring activities to monitor the internal control system and evaluate the results.

Principle 17: Management remediates identified internal control deficiencies on a timely basis.

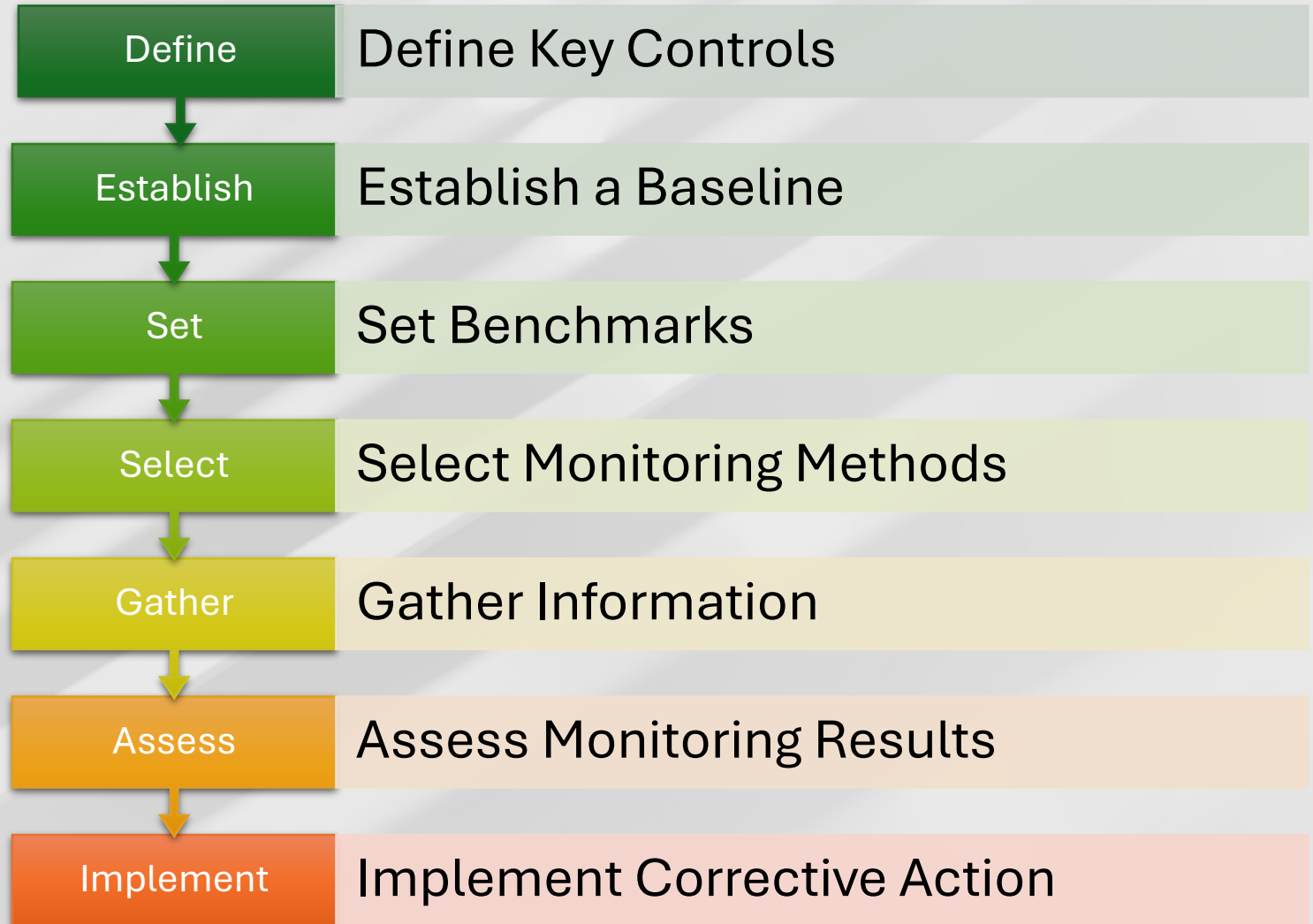
Uniform Compliance
Guidelines on Internal Control
pages 29-30



Monitoring

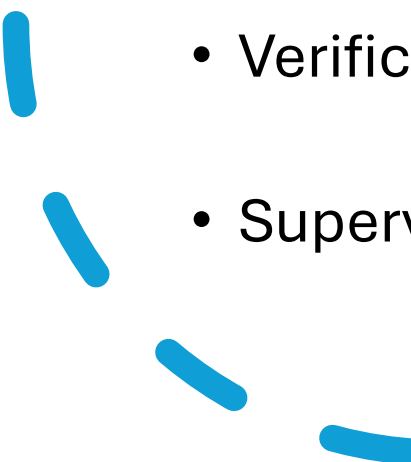
Suggested Steps

Uniform Compliance
Guidelines on Internal Control
pages 84-91





Define Controls to be Monitored

- Segregation of Duties
 - Review and Approval
 - Authorization
 - Verification
 - Supervision
- 

Select Monitoring Methods

Ongoing Evaluations

- Using automated tools
- Performing regular management and supervisory activities
- Preparing comparisons
- Performing reconciliations

Separate Evaluation

- Self-assessments
- Reviews by staff or management
- Audit results
- Data Analysis & trend monitoring
- Tests and Sampling



Document Monitoring Results



Who will be responsible to ensure the process is documented?



How will the monitoring process be documented?



What tangible evidence will be kept to show that monitoring procedures were performed?



Where will the documentation be filed?



How often will it be updated?



Implement Corrective Action

Who will be responsible for implementing corrective action, if necessary?

How will this be tracked?

Control Environment

Principle 1: The agency demonstrates a commitment to integrity and ethical values.

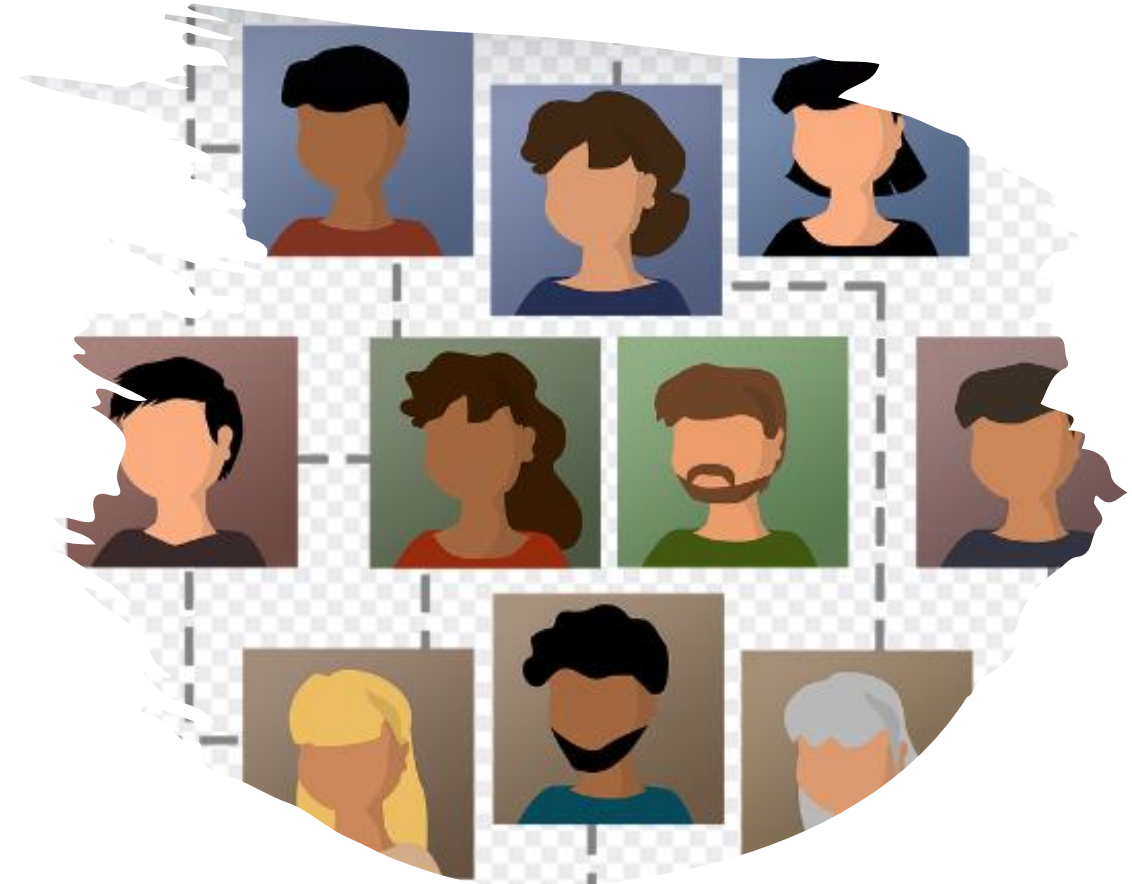
Principle 2: Agency leadership oversees the internal control system.

Principle 3: Management establishes an organizational structure, assigns responsibility, and delegates authority to achieve agency objectives.

Principle 4: The agency demonstrates a commitment to attract, develop, and retain competent individuals.

Principle 5: Management evaluates performance and holds individuals accountable for their internal control responsibilities.

Uniform Compliance Guidelines
on Internal Control pages 17-20



Control Environment

Suggested Steps

Uniform Compliance Guidelines
on Internal Control pages 35-40

1. Set the Tone at the Top
2. Define and Communicate Standards of Conduct
3. Evaluate Adherence to Standards of Conduct
4. Establish Oversight Structure and Procedures for the Internal Control System
5. Design Agency Organizational Structure
6. Recruit, Develop, and Retain Competent Staff
7. Create Succession and Contingency Plans
8. Promote Accountability

Contact Us Anytime!

Teams Channel: Send us a chat

Email: stateagencyadvisory@sboa.in.gov

Call: 317-232-2513

Schedule an Appointment



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