

OVERVIEW OF INTERNAL CONTROLS

INTRODUCTION

Chapter 647 of the Acts of 1989, *An Act Relative to Improving Internal Controls Within State Agencies*, establishes the minimum level of quality acceptable for Internal Control System in operation throughout state departments, agencies and colleges. The Office of the State Auditor and the Office of the State Comptroller are legislatively mandated to enforce this state law.

The Committee of Sponsoring Organization (COSO) of the Treadway Commission developed the current official definition of internal control. In its report, *Internal Control – Integrated Framework*, the Commission defines internal control as follows:

“Internal control is a process, effected by an entity’s board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

- Effectiveness and efficiency of operations.
- Reliability of financial reporting.
- Compliance with applicable laws and regulations.

This definition reflects certain fundamental concepts:

- Internal control is a process. It is a means to an end, not an end in itself.
- Internal control is effected by people. It is not policy manuals and forms, but people at every level of an organization.
- Internal control can be expected to provide only reasonable assurance, not absolute assurance, to an entity’s management and board.
- Internal control is geared to the achievement of objectives in one or more separate but overlapping categories”

A less technical definition might state that:

Internal controls are tools that help managers be effective and efficient while avoiding serious problems such as overspending, operational failures, and violations of law.

Per the *COSO Report*, there are five interrelated components to internal control. They are as follows:

- *Control Environment* - Sets the tone of the organization.
- *Risk Assessments* – Identifying, analyzing and managing the potential risks that could hinder or prevent the College from achieving its objectives.
- *Control Activities* – The structure, policies, and procedures which the College establishes so that identified risks do not prevent it from achieving its goals. Managers must develop internal controls for each activity for which they are

responsible. The internal controls exercised over individual activities, when taken collectively, become the internal controls of the program or administrative function of which they are a part. The internal controls for each of a department's programs and administrative functions, when combined with overall department controls, comprise the College's internal control documentation. The documentation is required by Chapter 647 of the Acts of 1989. This documentation, or a high level overview describing, referencing and summarizing the documentation is the College's ***Internal Control Plan***.

- *Information and Communication* – Managers must be able to obtain reliable information to determine their risks and communicate policies and other information to those who need it. Well-designed internal controls outline the specific authority and responsibility of individual employees. An internal control plan should provide for information to be communicated both with the College (up as well as down) and externally to those outside.
- *Monitoring* – Managers must continually monitor the effectiveness of their controls. Proper monitoring ensures that controls continue to be adequate and continue to function properly.