INTERNAL CONTROL SYSTEMS

To achieve public goals using public funds, federal (2 CFR 200.303) and state (FIACCT20-00.00) regulations require a governmental entity to have an internal control system. An internal control system is a process to help an entity achieve its objectives.

The Green Book is the recognized authority on governmental internal control systems. A governmental entity uses the Green Book to design, implement, and operate internal controls to achieve its objectives, which include:

- Running its operations efficiently & effectively
- Reporting reliable information about its operations
- Complying with applicable laws & regulations

The standards in the Green Book are organized into five components of internal control.

1. CONTROL ENVIRONMENT
   “The foundation for an internal control system. It provides the discipline and structure to help an entity achieve its objectives.”

2. RISK ASSESSMENT
   “Assesses the risks facing the entity as it seeks to achieve its objectives. This assessment 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, which includes the entity’s information system.”

4. INFORMATION & COMMUNICATION
   “The quality information management and personnel communicate and use to support the internal control system.”

5. MONITORING
   “Activities management establishes and operates to assess the quality of performance over time and promptly resolve the findings of audits and other reviews.”

“The five components of internal control must be effectively designed, implemented, and operating, and operating together in an integrated manner, for an internal control system to be effective.”

(GAO-14-704G Federal Internal Control Standards, pg. 7, OV2.04)
ROLES & RESPONSIBILITIES

The Green Book states “...everyone in the entity has a responsibility for internal control; roles in an entity’s internal control system can be categorized as follows:”

OVERSIGHT BODY

“The oversight body is responsible for overseeing the strategic direction of the entity and obligations related to the accountability of the entity. This includes overseeing management’s design, implementation, and operation of an internal control system...

For the purpose of the Green Book, oversight by an oversight body is implicit in each component and principle.” (GAO-14-704G Federal Internal Control Standards, pg. 11, OV2.14)

- Establish ethical values and expectations for competence
- Establish the oversight structure (i.e., administration)
- Oversee administration’s design, implementation, and operation of the entity’s organizational structure (e.g., org chart, staff assignments, recruiting and retention, accountability)
- Oversee administration’s assessment of risk
- Oversee administration’s design, implementation, and operation of the entity’s policies and procedures
- Analyze and discuss information related to achievement of objectives
- Scrutinize administration’s evaluation of the internal control system and remediation of identified internal control deficiencies

MANAGEMENT (ADMINISTRATION)

“[Administration] is directly responsible for all activities of an entity including the design, implementation, and operating effectiveness of an entity’s internal control system.” (GAO-14-704G Federal Internal Control Standards, pg. 12, OV2.14)

- Establish ethical values and expectations for competence
- Establish the organizational structure (e.g., org chart, staff assignments, recruiting & retention, accountability)
- Assess internal and external risks facing the entity as it seeks to achieve its objectives
- Design, implement, and assess operation of policies and procedures
- Identify, gather, and communicate information related to achievement of objectives
- Evaluate the internal control system and remediate identified internal control deficiencies

PERSONNEL

“Personnel help [administration] design, implement, and operate an internal control system and are responsible for reporting issues noted in the entity’s operations, reporting, or compliance objectives.” (GAO-14-704G Federal Internal Control Standards, pg. 12, OV2.14)