

# Internal Controls

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- Policy requirement – MOM 302, VIII provides general requirements.
- Agencies must review and update internal controls at least annually
- MOM 399 contains a comprehensive internal control guidebook

# Internal Controls

New this Year – National Association of State Auditors, Controllers and Treasurer’s (NASACT) internal control documents. (State Accounting Division Website/Internal Control Documents)

- Questionnaires
- Related Documents
- Resources

# Internal Controls

## Internal Control Documents

These documents have been provided courtesy of NASACT.

- Questionnaires
  - [Accounting Systems](#)
  - [Budgets and Planning](#)
  - [Capital Assets](#)
  - [Cash](#)
  - [Control Environment](#)
  - [Davis-Bacon Act](#)
  - [Federal Student Financial Aid](#)
  - [Financial Reporting](#)
  - [Grant Administration Guidance](#)
  - [Information Systems and Technology](#)
  - [Investments](#)
  - [Payables](#)
  - [Personnel and Payroll](#)
  - [Receivables](#)
  - [Risk Assessment](#)
- Related Documents
  - [A-87 Compliance](#)
  - [Agency Assessment Template](#)
  - [Internal Control Glossary](#)
  - [Internal Control Guidebook](#)
- Resources
  - [COSO](#)
  - [SWCAP Best Practices](#)

# Example Questionnaire

## Control Environment and organizational Structure

The term *control environment* refers to an entity's "corporate culture", showing how much the entity's leaders value ethical behavior and internal control. The key element in a favorable control environment is management's attitude, as demonstrated through its actions and example. The control environment is the foundation of the COSO internal control framework. It provides discipline and structure while encompassing both technical competence and ethical commitment. Management's "tone at the top" sets the standard for the entire entity since even the best policies and procedures cannot overcome the force of a bad example. A favorable control environment requires that management communicate the importance of internal controls to staff at all levels.

### **Control Objectives:**

1. Management emphasizes the importance of internal control through its attitude, actions, and values, and communicates this tone to all employees.
2. Management adheres to a code of conduct and other policies regarding acceptable business practices, conflicts of interest, or expected standards of ethical and moral behavior, and communicates these policies to all employees.
3. Management takes appropriate disciplinary action in response to departures from approved policies and procedures or violations of the code of conduct.
4. A strategic plan and mission statement are in place to provide guidance and assistance to management.
5. Financial policies and procedures for authorization and approval of transactions are in place and communicated to all applicable employees.
6. Organizational structure is clearly defined and up-to-date, with the appropriate reporting relationships established and communicated to all employees.
7. Appropriate controls are in place to monitor and review operations and programs.
8. Qualified and properly trained personnel are hired to help ensure control procedures are followed and resources are used efficiently.
9. Current job descriptions are established detailing the responsibilities and qualifications for each position.

# Example Questionnaire Continued

## CONTROL ENVIRONMENT

**Questionnaire Objective:** To obtain sufficient knowledge of the entity's control environment to understand management's and the governing body's attitude, awareness and actions concerning the following factors of the control environment:

- A. Integrity and Ethical Values
- B. Commitment to Competence
- C. Governing Body/Audit Committee
- D. Management Philosophy and Operating Style
- E. Organizational Structure
- F. Methods of Assigning Authority and Responsibility
- G. Personnel Policies and Practices

A.	Integrity and Ethical Values:	Yes	No	N/A	Comments
1.	Does previous experience with the entity indicate financial integrity among management and personnel?				
2.	Has a code of conduct been adopted that addresses acceptable business practices?				
3.	Does the code of conduct address policy for potential conflicts of interest?				
4.	Are these policies adequately communicated to employees?				
5.	Do management and staff comply with the department's policies and procedures?				

# Fraud Hotline

- 1-800-222-4446 or 444-4446 (Helena)
- The Legislative Auditor administers Montana's ***Fraud Hotline***. The hotline enables state employees and the public to report improper acts committed by state agencies, departments, or employees.
- ***What are improper governmental activities?***
  - Illegal acts, such as corruption, bribery, theft, or fraud.
  - Misuse or abuse of state property or time.
  - Gross misconduct, incompetence, or inefficiency.

# Theft Required to be Reported

- MCA 5-13-309(3)
- “The head of each state agency shall immediately notify both the attorney general and the legislative auditor in writing upon the discovery of any theft, actual or suspected, involving state money or property under that agency’s control of for which the agency is responsible.”