SECTION: FIVE – INTERNAL CONTROLS
TOPIC: CONCLUSION

An internal control system, no matter how well designed, cannot ensure that an organization will achieve its objectives. All internal control systems have inherent limitations. These include the realities of human judgement and breakdowns caused by such human failures as simple error or mistake. Controls can also be circumvented or negated through collusion and management override.

Another factor which must be considered when implementing or evaluating an internal control system is cost. In determining whether a particular control should be established, the risk of failure and the potential effect on the organization must be considered along with the related costs of establishing the control. The challenge is to find the right balance. Excessive control is costly and can be counterproductive. Too little control, on the other hand, allows for unacceptable high levels of risk.

Everyone in a State organization has some responsibility for internal control. The Treadway Commission report recognizes the particular significance of the finance officer and their staff. The report states that "as a member of top management, the chief accounting officer helps set the tone of the organization's ethical conduct; is responsible for the financial statements; generally has primary responsibility for designing, implementing and monitoring the company's financial reporting system; and is in a unique position regarding identification of unusual situations caused by fraudulent financial reporting." It is apparent when looking at internal controls that the chief financial (accounting) officer and his or her staff play critical roles. The COSO report further reinforced this concept by saying that "as such, the chief financial (accounting) officer should come to the table an equal partner with the other functional heads in an entity. Any attempt by management to have him or her more narrowly focused, i.e., limited principally to areas of financial reporting and treasury, could severely limit the entity's ability to succeed."

The COSO report also recognized the value of the internal auditor, audit committees and external audits but noted that final responsibility for establishing or maintaining the internal system rests with "the CEO, along with key managers with designated responsibilities (which may include the chief internal auditor)."

All State organizations should evaluate their internal controls. Large State organizations with complex operations should formally document their controls with written policy manuals, formal organization charts, written job descriptions, operating instructions, and information flowcharts. Such documentation makes evaluations more efficient, facilitates employees' understanding of how the system works, and their particular roles in implementing internal controls, and makes it easier to modify the system when necessary.