Statewide Internal Control Guidance

State Accounting Office

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Overview
The control environment is the foundation for an internal control system. It provides the discipline and structure, which impacts the overall quality of internal controls. The oversight body and management need to establish and maintain an environment that sets a positive attitude toward internal controls. Management has a responsibility to understand the principles and attributes for the control environment and exercise judgment in fulfilling their requirements, while the oversight body is responsible to oversee the internal control system.

Component	Principles	Attributes
Control Environment	1. Management and the oversight body demonstrate a commitment to integrity and ethical values.	1.1 Tone at the top 1.2 Standards of Conduct 1.3 Adherence to Standards of Conduct
	2. The oversight body oversees the internal control system.	2.1 Oversight Structure 2.2 Oversight for the Internal Control System 2.3 Input for Correction of Deficiencies
	3. Management establishes a structure, assigns responsibility, and delegates authority.	3.1 Organizational Structure 3.2 Assignment of Responsibility and Delegation of Authority 3.3 Documentation of the Internal Control System
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1. *Management and the oversight body[1] demonstrate a commitment to integrity and ethical values.*

1.1. Tone at the top

Concept

Tone at the top reflects the integrity and ethical values expected throughout the organization and is driven by management's and the oversight body's attitude, actions, and decisions.

Management Responsibilities

- Management at all levels stays aware that their attitude, toward these values and internal controls, can influence the behaviors of their staff.

- Management and the oversight body set an appropriate tone at the top in a variety of ways, including:
  - Demonstrating the importance of integrity and ethical values through established directives, attitudes and behaviors.
  - Leading by example.
  - Reinforcing the commitment to do what is right and not just the minimum to comply with laws and regulations.

Key Importance to Internal Control

An appropriate tone at the top is essential to an effective internal control system. For example:
  - If management and/or the oversight body expresses the importance of tone at the top, then it will act as a driver to the internal control system.
  - If management and/or the oversight body does not establish a sufficient tone at the top, then personnel may not see the need to completely or appropriately perform the five components of an internal control system.
  - If personnel see management and/or the oversight body acting unethically then they may be more inclined to act unethical themselves.

Example[2]

Management and the oversight body stress the importance of integrity and ethical behavior. Some possible ways to do this could include:
  - Discussing expected behaviors.
  - Acting ethically (not requesting improper things to be recorded, not using State assets for personal use).
  - Expectations of the "tone at the top" expressed formally in various organizational and state-wide documents:
    - O.C.G.A. Title 45, Chapter 10 Articles 1 and 2. Code of Ethics and Conflicts of Interest.
    - Governor's Executive Order April 1, 2021 "Establishing a new Code of Ethics for Executive Branch Officers and Employees".

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[1] The term oversight body, including an example, is discussed more in-depth in Principle 2 of this document.
[2] The examples provided throughout this framework are intended to be a minimum starting point and not an all-inclusive list.

- Governor's Executive Order January 14, 2019 "Preventing Sexual Harassment in the Executive Branch of Government".
- Organization's strategic plan.
- Missions and value statements.
- Standards or codes of conducts.
- Professional standards.
- Policies and practices.
- Operating principles, directives or guidelines.
- Actions of the oversight body and management.

1.2. Standards of Conduct

Concept

Standards of conduct define and communicate expectations relating to allowable behavior for integrity and ethical values.

Management Responsibilities

Management, with oversight from the oversight body, define and communicate standards of conduct that:

- o Balance the needs and concerns of different stakeholders (regulators, employees and the public).
- o Guide the directives, attitudes and behaviors of the organization in achieving their objectives.
- o Clearly state that all employees will be held accountable to act within the standards of conduct and detail penalties for not complying with the expectations (see Adherence to Standards of Conduct below).

Key Importance to Internal Control

Standards of conduct are essential to an effective internal control system, as they reinforce the expected behavior. For example, if there are not documented standards of conduct then personnel may not know what behavior is appropriate.

Examples[2]

- Georgia officials have already established standards of conduct that apply to public officers and employees, as follows:
  - o OCGA Title 45, Chapter 10, Article 1 – Codes of Ethics – establishes a code of ethics for government service.
  - o OCGA Title 45, Chapter 10, Article 2 – Conflicts of Interest – declares "it is essential to the proper operation of democratic government that public officials be independent and impartial, that governmental decisions and policy be made in the proper channels of the governmental structure, that public office not be used for private gain other than the remuneration provided by law, and that there be public confidence in the integrity of government".
  - o Governor's Executive Order relating to Code of Ethics (signed April 1, 2021) – establishes "it is essential that the government function in a manner consistent with the highest ethical standards".

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- o Governor's Executive Order January 14, 2019 "Preventing Sexual Harassment in the Executive Branch of Government".
- Management establishes expectations specific to their organization, which could include:
    - o An Oath of Office that personnel are required to take at the beginning of their employment.
    - o Any other implemented policies they feel are necessary.
    - o Inclusion of ethics and appropriate behavior expectations in personnel performance management documents.
- Management ensures there is sufficient notification of the expectations. Some possible ways to do this could include:
    - o Notifying new personnel (possibly requiring signature acknowledging review and understanding of the expectations).
    - o Reminding personnel on a routine basis regarding the expectations (could be such things as a message when user logs on to their computer).
    - o Requiring routine recertification by personnel regarding the expectations (again possibly requiring signature).
    - o Training as needed.
    - o Publishing policies/guidance/standards of conduct on the organization's website.

1.3. Adherence to Standards of Conduct
Concept

Adherence to standards of conduct is a process to evaluate actual performance against the expected standards of conduct and address any differences in a timely manner.

Management Responsibilities
- Management evaluates the attitudes and behaviors of individuals and teams to ensure their actions are in compliance with the standards of conduct. These evaluations may be done on a separate or ongoing basis and should occur at all levels.
- In addition to the evaluations, management establishes other methods for the reporting of noncompliance without the fear of retribution, such as:
    - o Whistle-blowing process,
    - o Ethics hotline,
    - o Regular staff meetings, or
    - o Upward feedback process.
- Management assesses penalties in a consistent and timely manner if attitudes and behaviors are not in compliance with the standards of conduct. Depending on the severity of the noncompliance, penalties could range from a warning to the firing of the personnel involved. Additionally, management considers penalties already established in laws and regulations that may be applicable.
- After an incident has been dealt with, management:
    - o Assesses and improves relevant internal controls.
    - o Provides communication and training, as applicable, to reinforce the standards of conduct.
- The oversight body evaluates management's compliance to the standards of conduct as well as the overall compliance by the organization.

Key Importance to Internal Control
Compliance with standards of conduct is essential to an effective internal control system, as it demonstrates the organization's commitment to their integrity and ethical standards which can ultimately help to reinforce internal controls. For example, if there are penalties established and enforced for inappropriate attitudes and behavior, then personnel may be more inclined to act in accordance with the standards of conduct.

Examples[2]
- Georgia officials have already established various penalties, such as:
  - OCGA Title 45, Chapter 10, Article 1 – Codes of Ethics documents the hearing process for violations by member of any such board, commission, or authority.
  - OCGA Title 45, Chapter 10, Article 2 – Conflicts of Interest details numerous penalties by Section, including some as fines, removal from Office and/or civil action by the Attorney General.
  - Governor's Executive Order relating to Code of Ethics (signed April 1, 2021) establishes that each agency head shall institute procedures for its enforcement. Also, the Order indicates that employees who violate it are subject to disciplinary action, including termination.
  - Governor's Executive Order January 14, 2019 "Preventing Sexual Harassment in the Executive Branch of Government". The Executive Order mandated the creation of a statewide sexual harassment policy applicable to all executive branch agencies, imposed training requirements for state employees, and established a uniform standard of investigation for sexual harassment complaints.
- Georgia does have some mechanisms in place to report non-compliance. There is a formal fraud reporting link in the Resource Center section on the Team GA website which leads to the Office of the Inspector General.
- Management documents certain elements in their personnel performance management document and other applicable policies. Potential elements could include:
  - Expected behaviors.
  - Penalties for violations relating to expected behaviors.
- Management could meet routinely (e.g., annually) with personnel to verify they are performing their job responsibilities.
- Management could issue a newsletter or other correspondence detailing:
  - Sample scenarios of situations and appropriate behavior.
  - Actions taken to a known situation, to the extent possible:
    - For example, if someone is known to have violated the standards of conduct, what actions did management take to address the situation.
- Some possible ways the oversight body evaluates management could include:
  - Having periodic meetings and other communications with management.
  - Reviewing management's documentation relating to personnel decisions.

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[2] The examples provided throughout this framework are intended to be a minimum starting point and not an all-inclusive list.

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2. The oversight body oversees the internal control system.

2.1. Oversight Structure

Concept

The oversight structure enables the organization to fulfill their responsibilities set forth by laws and regulations, government guidance, and feedback from key stakeholders.

Oversight Body Responsibilities
- The organization will select an oversight body, or if mandated by Law the oversight body will be selected for it. As appropriate, an oversight body:
  - Oversees the organization's operations.
  - Makes oversight decisions so that the organization achieves its objectives in alignment with the integrity and ethical values.
  - Provides constructive criticism to management.
  - Scrutinizes and questions management's decisions, presents alternatives, and acts when faced with wrongdoing.
- The oversight body may contain:
  - Organization management.
  - Independent members, if authorized by applicable laws or regulations.
- Members of the oversight body should contain certain expertise needed to oversee, question, and evaluate management. Some qualifications could be knowledge of the organization, critical thinking, problem-solving abilities, and relevant expertise (such as programmatic, legal, internal controls, or financial).
- If there is no oversight board, other compensating controls are to be put in to place.

Key Importance to Internal Control

A clearly defined oversight structure will provide additional supervision of the internal control system, as the oversight body scrutinizes and questions management's activities, provides alternate views, and acts when faced with obvious or suspected wrongdoing.

Example[2]

The term "oversight body", as used in this framework, refers to:
- A board which is a group of elected or appointed members who jointly oversee the activities of the organization.
- The department head and/or senior personnel.
- Executive branch departments also get guidance from the State Chief Financial Officer and Chief Operating Officer.
- Advisory boards or counsels.
- The Board of Regents for each member institution (colleges and universities) of the University System of Georgia.

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2.2. Oversight for the Internal Control System

Concept

The oversight body provides assistance and direction to management in relation to internal controls.

Oversight Body Responsibilities

- The oversight body analyzes, discusses and scrutinizes management's design, implementation and operation of the five components of the organization's internal control system.
- The oversight body also oversees management's design, implementation and operation of the organizational structure, so that the processes necessary to enable the oversight body to fulfill its responsibilities exist and are operating effectively.

Key Importance to Internal Control

The oversight body provides another level to assist and oversee management's decisions relating to internal control.

Example[2]

Some possible ways to do this could include the oversight body:
- o Having periodic meetings and other communications with management.
- o Reviewing management's internal control documentation.
- o Appropriate documentation is maintained and includes meeting agendas, meeting minutes, review reports/documents, emails, etc.

2.3. Input for Correction of Deficiencies

Concept

The oversight body provides input to management's plans for correction of deficiencies in the internal control system as appropriate.

Oversight Body Responsibilities

The oversight body has certain responsibilities, including providing direction to management:
- o On the correction of the deficiencies
  - ▪ When a deficiency crosses organizations or if the interests of management conflict with correction efforts.
- o On the time frame for correcting deficiencies.

Key Importance to Internal Control

The oversight body provides an additional layer of supervision to ensure the internal control system is operating optimally, by providing input for the remediation of deficiencies.

Example[2]

Some possible ways to do this could include the oversight body:
- o Having periodic meetings and other communications with management.

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[2] The examples provided throughout this framework are intended to be a minimum starting point and not an all-inclusive list.

- o Reviewing management's action taken.
- o Following up to ensure the deficiency has been corrected.
- o Appropriate documentation is maintained and includes meeting agendas, meeting minutes, review reports/documents, emails, etc.

3. *Management establishes a structure, assigns responsibility, and delegates authority.*

3.1. Organizational Structure
Concept

The overall design of the organization necessary to plan, execute, control and assess the achievement of its objectives. It encompasses the divisions/programs, operational processes, and other structures management uses to achieve the objectives.

Management Responsibilities

- Management develops the structure of the organization and assigns the responsibilities to divisions/programs as needed. This design enables the organization to operate efficiently and effectively, comply with applicable laws and regulations, and reliably report quality information.
- Management considers how units interact, and defines reporting lines at the various levels to allow communication to flow in all directions internally and externally.
- Periodically management evaluates the organizational structure to ensure it continues to meet the organization's objectives, and makes changes as needed.

Key Importance to Internal Control

A clearly defined organizational structure identifies who is responsible for what aspect of the internal control system.

Example[2]

Some possible ways to do this could include management:
- o Defining organizational charts.
- o Ensuring there is a listing showing the hierarchy of the organization.

3.2. Assignment of Responsibility and Delegation of Authority
Concept

Clearly assigning who is responsible for certain aspects of the internal control system and delegating authority as necessary.

Management Responsibilities

- Management assigns responsibilities and delegates only the authority needed to key roles to enable the organization to meet its objectives.
- The personnel in key roles are generally senior management, and they can further assign responsibility to roles below them, but they retain ownership for fulfilling that responsibility.

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- Management considers proper segregation of duties while delegating authority.

Key Importance to Internal Control

Clear assignment of responsibility will help ensure personnel understand their internal control responsibilities and delegation of authority will help personnel be able to perform their duties. Additionally, segregation of duties is important because it helps prevent fraud, waste, and abuse by having separate authority, custody and accounting in the organizational structure.

Example[2]

Some possible ways to do this could include management:
  - o Defining organizational charts.
  - o Ensuring there is a listing showing the hierarchy of the organization.
  - o Ensuring that job descriptions clearly detail responsibilities.
  - o Ensuring one person is not responsible for all aspects of a function or compensating/mitigating controls exist when proper segregation of duties is not feasible.

3.3. Documentation of the Internal Control System

Concept

Documenting the organization's internal control system allows for the communication and understanding of the internal control system.

Management Responsibilities

Management develops and maintains appropriate documentation of its internal control system considering the cost benefit of documentation along with the size, nature and complexity of the organization.

Key Importance to Internal Control

A certain level of documentation is necessary to:
  - o Communicate the design, implementation, and operating effectiveness (who, what, where, when and why) of its internal control system to personnel including external parties.
  - o Retain organizational knowledge and mitigate the risk of having knowledge limited to a few personnel.
  - o Document the results of ongoing monitoring, identify internal control issues and support that appropriate corrective actions were taken on a timely basis.
  - o Support the determination of a principle management considers not to be relevant. This includes the rationale of how, in the absence of that principle, the component could still be designed, implemented, and operated effectively.

Examples[2]

- Management ensures there is sufficient documentation of the internal control system. Some possible ways to do this could include:
  - o Preparing narratives or creating flowcharts.
  - o Taking or creating pictures.

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- The documentation is prepared at a high level, but with enough specifics for someone outside of the system to be able to understand.
- Utilizing state-wide online system such as Onspring for evaluations and documenting the organization's internal controls.
- The documentation is prepared in the manner most useful and efficient, which could include any range from manually prepared items to more formally prepared documents.
- The documentation is updated as changes occur within the organization and to policies impacting the organization.

4. *Management demonstrates a commitment to recruit, develop, and retain competent individuals.*

4.1. Expectations of Competence

Concept

Competency requires relevant knowledge, skills and abilities which are gained from professional experience, training and certifications.

Management Responsibilities

- Management establishes expectations that personnel in key roles should have qualifications necessary to carry out assigned responsibilities and to understand the importance of effective internal control. Management also establishes competency expectations for other personnel through policies within the internal control system.
- Management holds personnel accountable by evaluating their actual behavior against the expectations, and as necessary addresses any differences in a consistent and timely manner.
- The oversight body evaluates the competence of management as well as the competence overall of organization personnel.

Key Importance to Internal Control

Competency is important to an internal control system to ensure that personnel can appropriately carry out their assigned internal control responsibilities, which ultimately allows the internal control system to operate as designed.

Examples[2]

- Management ensures that personnel possess the competencies required for that position. Some possible ways to do this could include:
  - Following basic requirements for positions included in the Georgia Code.
  - Including up to date, specific, and applicable basic minimum requirements in job descriptions (such as educational or experience requirements).
    - Making sure new hires meet the basic minimum job requirements.
  - Documenting certain elements in the personnel performance management documents and other applicable policies, such as minimum expectations.
  - Ensuring someone is meeting with personnel routinely (e.g., annually) to verify they are performing their job responsibilities.

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- Some possible ways the oversight body evaluates management could include:
  - Having periodic meetings and other communications with management.
  - Reviewing management's documentation relating to personnel.
  - Appropriate documentation is maintained and includes meeting agendas, meeting minutes, review reports/documents, emails, etc.

4.2. Recruitment, Development and Retention of Individuals

Concept

Providing a positive work environment to help personnel improve their skills and reduce job turnover.

Management Responsibilities

Once management has recruited competent personnel they develop and retain them through methods such as:

  - Training – develop competencies appropriate for key roles, reinforce standards of conduct, and tailor training based on the needs of the role.
  - Mentoring – provide guidance on the personnel's performance, align the personnel's skills and expertise with the organization's objectives, and help personnel adapt to an evolving environment.
  - Retaining – Create an environment to motivate and reinforce expected levels of performance and desired conduct, including training and credentialing.

Key Importance to Internal Control

With high turnover, it is more likely that personnel will not be aware of internal controls, and ultimately the internal control system may not operate as designed. Hopefully, creating a positive work environment will reduce job turnover.

Example[2]

Management could offer such things as:

  - Offsetting the cost of certain licensure or educational programs.
  - Offering continuing education.
  - Assisting with career development plans and career path options.
  - Conducting individual performance programs.
  - Providing mentoring programs.

4.3. Succession and Contingency Plans and Preparation

Concept

Plans to continue operations under turnover of state personnel or external third parties.

Management Responsibilities

Management defines plans relating to the replacement of personnel or service organizations in key roles to enable the organization to be able to continue and achieve its objectives.

  - Succession plan – addresses the need to replace competent personnel over the long term, including choosing and training succession candidates. Management ensures processes are implemented for knowledge sharing. Also, management assesses if

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a service organization (e.g. external third party) can continue in these key roles or identifies other candidates.
- o Contingency plans – addresses the need to respond to sudden personnel changes that could compromise the internal control system or the organization's ability to achieve its objectives. Management defines more formal and in-depth plans for the important key roles.

Key Importance to Internal Control
Having plans already in place will also allow the internal control system to continue to operate even with turnover of personnel.

Example[2]
Management ensures there are sufficient plans in place, which could include elements such as:
- o Allowing for job shadowing.
- o Providing cross training.
- o Encouraging information sharing.
- o Researching alternative options.
- o Keeping documents on shared drive locations.

5. *Management evaluates performance and hold individuals accountable for their internal control responsibilities.*

5.1. Enforcement of Accountability
Concept
Accountability is driven by tone at the top and is supported by the commitment to the principles previously discussed, especially integrity and ethical values.

Management Responsibilities
- Management holds personnel accountable for performing their assigned internal control responsibilities via performance appraisals, and tackles performance deficiencies. Depending on the significance of the deficiency, disciplinary actions should be enforced ranging from informal feedback provided by the direct supervisor to action taken by the oversight body.
- If service organizations (e.g. external third party) are performing key roles in the internal control system, then management holds the service organizations accountable for their assigned responsibilities.
- The oversight body holds management, as well as the organization as a whole, accountable for its internal control responsibilities

Key Importance to Internal Control
Accountability is essential to an effective internal control system, otherwise personnel or service organizations (e.g. external third party) may be inclined to not perform their responsibilities which could result in a breakdown of the internal control system.

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Examples[2]
- Management holds personnel accountable. Some possible ways to do this could include:
  o Documenting clearly internal control responsibilities in the personnel's performance management documents and other applicable policies.
  o Having penalties for not performing internal control responsibilities clearly documented, and ensuring the penalties are enforced consistently and timely.
  o Ensuring someone is meeting with personnel routinely (e.g. annually) to verify they are performing their internal control responsibilities.
- Including internal control related clauses in contracts with service organizations (e.g. external third party), that could include:
  o Requesting reports from the external third party documenting their internal control system as well as the effectiveness of that system.
- Some possible ways the oversight body evaluates management could include:
  o Having periodic meetings and other communications with management.
  o Reviewing management's knowledge of the internal control system.
  o Determining the effectiveness of the internal system implemented by management.
  o Appropriate documentation is maintained and includes meeting agendas, meeting minutes, review reports/documents, emails, etc.

5.2. Consideration of Excessive Pressures
Concept
Pressures on personnel can come from various factors, such as:
  o Management goals.
  o Cyclical demands of certain processes such as year-end financial statement preparation.

Management Responsibilities
Management evaluates pressures and reduces excessive pressure by using various options such as rebalancing workloads or increasing resource levels. This should allow personnel to complete their responsibilities as designed in the internal control systems and in accordance with the standards of conduct.

Key Importance to Internal Control
If personnel are under pressure they may be tempted to "cut corners" or not bring problems forward to management.

Example[2]
Management ensures that pressures are assessed and reduced when appropriate. Some possible ways to do this could include:
  o Holding routine meetings to discuss workload.
  o Reallocating duties, using interns or using part time staff.
  o Filling vacant positions in a timely manner.
  o Offering Employee Assistance Program services for free.

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