

MONITORING
INFORMATION & COMMUNICATION
CONTROL ACTIVITIES
RISK ASSESSMENT
CONTROL ENVIRONMENT

Volume 2, Issue 8 – August 26, 2010

Controls over financial reporting

- **We all routinely use financial information to make decisions that impact our organizations.**
- **Internal controls provide assurance that financial information and reports we use are reasonably accurate and can be relied upon.**

Most of us deal with voluminous amounts of data and information each day as a part of our jobs. We routinely use financial information to make decisions that impact the very core of our organizations. But how do we make sure the information we are using is correct? How do we know that, at minimum, it does not contain errors or, at worst, it has not been purposefully misstated or falsified?

The Internal Control – Integrated Framework (COSO) was created to address this very issue.

Internal control is a process designed to provide reasonable assurance that financial reports are accurate and reliable. In this context, financial reporting goes far beyond the issuance of the state's annual financial statements, the Comprehensive Annual Financial Report (CAFR). Good financial reporting controls decrease the risk of inaccurate and unreliable financial information being produced for either internal use or external distribution.

Ensuring the integrity and accuracy of critical financial information and reports starts with assessing controls over individual transactions being entered into the underlying information system, such as MAPS, or an agency subsystem. How do you make sure the transactions you will use to assemble financial reports are free of errors or miscoding? Are all identified exceptions and errors promptly researched and resolved? As part of this evaluation, you should review both statewide and departmental policies and procedures relating to the input of individual transactions. For example, many MAPS policies, such as *Security and Access* (policy 1101-07), *Three-Way Match Requirement* (policy 0803-05) and *Using Correct Record Dates for Expenditures* (policy 0901-01) exist to provide controls over

the risk of inappropriate or inaccurate disbursement transactions.

Next, you need to assess how the data is extracted from the system and summarized. Is the process documented and standardized? Are queries reviewed and approved? Research shows that many desktop data applications are prone to errors and version control problems. You need controls to protect database queries and spreadsheets from unauthorized revision or corruption.

Finally, you should review the process used to make adjustments to the data, including reclassifications or estimates. This step carries the most risk. Adjustments should be made by knowledgeable staff, and be based on relevant, sufficient and reliable facts. All adjustments should be clearly understood, documented, and independently reviewed and approved by an appropriate level of management.

Suggested Action Steps: Determine which financial information and reports are critical to your agency. The list should include information provided to the MMB Financial Reporting Unit for use in preparing the state's CAFR. Develop a list of the potential risks to the integrity and accuracy of the information and assess whether you have adequate controls in place to mitigate the most important risks.

If you have questions, please contact Jeanine Kuwik, Internal Control and Accountability Director at jeanine.kuwik@state.mn.us or (651) 201-8148. For concerns relating to agency information being provided for the CAFR, you can also contact Susan Rumpca, Financial Reporting Supervisor at susan.rumpca@state.mn.us or (651) 201-8150.

COSO Pyramid used with permission. Copyright 1992-2009. Committee of Sponsoring Organizations of the Treadway Commission. All rights reserved.