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## Key Elements of Control Environment

- **Control environment is the foundation of an effective internal control structure.**
- **Many control environment elements already exist in state agencies.**
- **A tool to help agencies evaluate and document control environment is available.**

The control environment is the foundation of an effective internal control structure, setting the tone of the organization and influencing the control consciousness of its people. With an effective control environment, employees view internal control as essential and integral to providing services to citizens, protecting state resources and providing reliable financial information. When the control environment is ineffective, employees may get the false impression that controls are nothing but ‘red tape’ that disrupts their ‘real’ jobs.

Key elements of an effective control environment are summarized below. These concepts are not new, but relate to many of the state’s existing laws and policies and are inherent in most agencies’ current processes.

**Integrity and Ethical Values** - Management believes integrity and ethical values cannot be compromised. This message is communicated through policy statements, codes of conduct and leading by example.

**Management’s Philosophy and Operating Style** - Management clearly communicates its philosophy and operating style to employees through a mission statement, goals and objectives. Management promotes a strong internal control structure.

**Organizational Structure/Assignment of Authority and Responsibility** - Management defines key areas of authority, responsibility and establishes appropriate lines of reporting. Communication to employees occurs in several formats, including organization charts, delegations of authority, and limiting access to sensitive information.

**Human Resource Policies and Practices** - Management has standards for hiring qualified people and clearly communicates expectations

for hiring, training, evaluating, coaching, promoting, compensating and disciplining personnel.

**Commitment to Competence** - Management ensures employees possess appropriate skills and knowledge to effectively perform their jobs, including maintaining effective internal controls. This assurance appears in several forms, including minimum hiring qualification standards, training, and periodic performance evaluations.

**Oversight** - Management maintains good working relationships with its oversight groups, including the legislature, oversight committees or boards, and the Office of the Legislative Auditor. Oversight groups positively influence an agency’s control environment by monitoring its mission, goals, and financial performance.

*Suggested Action Step:* The Internal Control and Accountability Unit has developed a tool that agencies can use to evaluate and document control environment. The tool is meant to prompt discussions among agency management and to help determine what, where, and how improvement can be implemented. You can access the control environment tool and instructions at

<http://mn.gov/mmb/internalcontrol/internalcontrolframeworkandtools/controlenvironment/index.jsp>

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