

The state's three lines of defense

- The state has three lines of defense to guard itself against control breakdowns and fraud.
- The state's first line of defense is the employees involved in the day-to-day running of the agency's operations.
- Make sure your employees understand their control responsibilities and have a channel to report evidence of potential wrongdoing.

Soccer coaches often say that, for the goalie to miss a save, ten other players must have missed it before him or her. In the game of soccer, the goalie is the final line of defense. The same can be said of internal control breakdowns or frauds. There are several lines of defense that must be breached before a fraud or theft can successfully be perpetrated.

The concept of "three lines of defense" has become a standard model for explaining risk and controls. For example, in home security, the first and most effective line of defense is to lock your doors and windows and lower the garage door, to limit crimes of opportunity. For added protection, a second line may be an alarm system that monitors your home and alerts you if a break-in is in progress. The third and final line of defense is the police, who only arrive after a break-in has occurred.

Applied to state government, the three lines of defense are first, the business process owners, second, oversight and policy-making groups, and third, the auditors.

The first line of defense is the business process owners, including the employees involved in the day-to-day running of the agency's operations. Like locking your doors and windows, state employees put controls into place and operate them. It is critical that all employees understand their control responsibilities and are diligent in performing the control activities assigned to them. Line employees are in the best position to prevent errors and fraud and to identify weaknesses and vulnerabilities.

The second line of defense is the state's oversight functions. These include both agency and statewide oversight. Oversight

functions establish standard policies and procedures, including key control activities. Minnesota Management & Budget is an oversight function, establishing statewide policies that include key control activities and best practices. Likewise, agency management should provide standard operating policies and procedures promoting appropriate controls. Oversight functions monitor the business processes and respond to new emerging risks. They should raise the alarm if indications of control weaknesses or other problems are present.

The third and final line of defense is audit (both internal and external). Auditors regularly review both the agency front-line operations and the oversight functions to ensure they are appropriately carrying out their tasks. The auditors report not only cases of actual loss or theft, but also control weaknesses that make the agency vulnerable. As a result, it is important that agencies take audit results seriously and view audits as opportunities to improve internal controls and correct deficiencies.

Suggested Action Steps: Concentrate on strengthening your agency's first line of defense. Empower your front-line employees. Make sure they understand their control responsibilities and have an established channel to report evidence of control weaknesses or potential wrongdoing.

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