



Volume 6, Issue 4 – April 29, 2014

Internal controls: Cultural change or random acts

- **An effective internal control structure requires more than just completing the annual certification form.**
- **Use of internal control tools must be incorporated into everyday use and imbedded in the organizational culture.**
- **Establishing a culture where internal controls are viewed as mission-critical will increase the chances of organizational success.**

Imagine if the people who discovered fire, or the wheel, or the bow and arrow used those tools only for special occasions versus incorporating them into everyday life. Consider how stunted the growth and maturity of those civilizations would have been; the additional hardships those communities would have endured; the added risks to those populations.

This is somewhat (albeit loosely) analogous to agencies that view internal control tools solely as a means to satisfy annual certification requirements, pursuant Minnesota Statute 16A.057, subdivision 8, *Internal Controls and Internal Auditing*. Use of internal control tools, such as code of conduct, separation of duties, reconciliations, safeguarding assets, risk assessment, and control environment self-assessment must be incorporated into everyday use and embedded in the organizational culture of each state agency to maximize the effectiveness of those tools and to establish a strong, statewide system of internal control.

Most agencies have done a great job of using the internal control tools available to support the completion of their annual internal control certifications. But has that changed the way the state's senior leaders, line managers, and employees view internal controls? Has use of the tools prompted employees to make internal controls part of their everyday jobs?

The same question is being asked by our colleagues at the Department of Administration's Continuous Improvement/Lean team. In fact, that unit penned an article in their July 2013 edition of the *e-Lean Update* newsletter, titled, "Master Planning: Going from Random Acts of Tool Usage to True Culture Change." The theme of the article as it relates to Lean and continuous improvement tools, such as Kaizen events, is obvious from the article's title. And, that same theme is equally applicable to internal control tool usage.

The next step in the evolution and maturity of the state's overall internal control structure is integrating internal control principles and tools into each agency's culture. Hallmarks of an agency whose culture has embraced internal controls as critical for success include:

- A strong tone at the top—a senior leadership team that demonstrates, through words and actions, the importance of internal controls.
- Personnel at all levels of the agency routinely discuss internal control matters and initiatives during staff meetings.
- Changes that impact the organization, be they internal or external, result in automatic management review of policies, procedures, risk assessments, and control environment assessments.
- Position descriptions include key internal control duties and responsibilities.
- Performance evaluations include discussion of internal control responsibilities.

Suggested Action Steps: Consider the question posed by our Continuous Improvement/Lean friends in their July 2013 newsletter. Does your agency simply perform "random acts of internal control tool usage" to satisfy the annual internal control certification requirement or are the tools being used with the primary intent of improving the internal control structure of the organization? If the former, strategize with your agency's leaders about how to evolve the organization's culture to one that embraces internal controls as mission critical versus a set of mundane tasks.

If you have questions, please contact Mike Thone, Internal Control Specialist, at 651-201-8132 or at Mike.Thone@state.mn.us.