



Volume 6, Issue 3 – March 26, 2014

Internal control urban legends

- **Internal controls are every employee's responsibility.**
- **The time and energy spent trying to remedy a bad situation far outweighs any inefficiencies created by a well-designed control structure.**
- **If you do not monitor your internal controls, they will degrade over time.**
- **Internal controls are here to stay.**

We have all heard our share of urban legends. One of my earliest memories of an urban legend was the rumor that Paul McCartney, the famed lead singer of the Beatles, had died in 1966 and had been secretly replaced by a look-alike. As the rumor became rampant, many admirers of the band searched for signs, going so far even to play certain Beatles songs backwards (remember this was in the age of vinyl records and turntables!), listening for mysterious lyrics and clues to either confirm or discredit the legend. In the end, however, we all know that Paul McCartney is still alive and performing, most recently at the Grammy Awards in January.

By definition, urban legends are hoaxes, rumors or myths that spring up and become very hard to debunk. Some urban legends are based in truth, but many of them are blatantly false.

In honor of the upcoming April Fool's Day, the Internal Control and Accountability Unit has assembled in this bulletin some of our personal favorite urban legends regarding internal controls.

Only auditors and accountants should be concerned about internal controls. Controls are every employee's responsibility. Waiting for auditors to point out control weaknesses is unwise and could be dangerous. Waiting allows control weaknesses to go unresolved and provides an open window for errors or fraud. Agency employees are in the best position to identify and mitigate weaknesses and vulnerabilities as they go about day-to-day agency operations.

Internal controls are inefficient. Every control activity does, in fact, come with a cost, in terms of time, effort, and money. Adequate controls often include separations of duties (i.e. handoffs) which can appear contrary to continuous improvement efforts. However, as

any agency which has experienced a large financial or reputational loss through error, fraud or theft knows, the time and energy spent trying to remedy a bad situation far outweighs any inefficiencies created by a well-designed control structure.

Conducting risk assessments is a one-time exercise. Your agency's internal control system needs to be maintained and monitored. There is a tendency for the system to degrade, control activities to be abandoned, and separations of duties to collapse in the absence of watchful and continuous monitoring. From this comes the saying, "If you leave your internal controls alone, they will go away."

Internal controls are a passing fad. Auditors and business people began discussing the concept of internal controls during the industrial revolution in the late nineteenth century. Internal control was first formally defined in 1949. A formal internal control framework (COSO) was published in 1992 and has become the national standard both in business and in government. Having stood the test of time, internal controls are here to stay.

Thinking too much about internal controls will make your hair turn gray. Although we have some anecdotal instances of gray-haired state employees with primary internal control responsibilities, we have insufficient evidence to confirm or deny this legend!

Suggested action steps: Have you used any of the urban legends listed above to avoid being actively involved in the design or operation of your agency's internal controls? If so, rethink your stance and help to make internal controls an integral part of your agency's culture.

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