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Chapter **Internal Control**		.1 OF .2
Part **Management's Responsibilities**		
Section		Approval Signature on file at SCD

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Internal Control Framework

.101   The Committee of Sponsoring Organizations of the Treadway Commission (COSO) released a report in September 1992, that sets the national standards for **internal controls**. The report is titled Internal Control – Integrated Framework and consists of four volumes, including an executive summary. The COSO Report will be the basis for Oregon's internal control framework.

.102   Management of the State is responsible for establishing and maintaining internal control. Internal control is a process effected by management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

- Effectiveness and efficiency of operations
- Reliability of financial reporting
- Compliance with applicable laws and regulations

.103   According to the COSO model, internal control consists of five interrelated components, which are:

a.   *Control environment* sets the tone of an organization, influencing the control consciousness of its people. It is the foundation for all other components of internal control, providing discipline and structure.

Basic to the control environment are organizational structure, assignment of authority and responsibility, and human resources policy. More difficult to quantify are ethics, commitment to competence, and management operating style.

b.   *Risk assessment* is the identification and analysis of risks relevant to achievement of objectives, forming a basis for determining how the risks should be managed.

Management's responsibility is to define compatible relevant objectives and the risks related to achieving those objectives. Management should have a basis for determining which risks are most critical. Management ensures mitigation of key operating risks.

c.   *Control activities* are the policies and procedures that help ensure management directives are carried out.

Control activities reflect management's risk mitigation strategy in the form of directive, preventive, and detective controls. Focus is on achieving effectiveness and efficient resource usage as measured by the degree of achievement of control objectives.

Control activities help ensure necessary actions are taken to address risks relevant to achievement of objectives. Examples are physical controls and segregation of duties.

d. *Information and communication* are the identification, capture, and exchange of information in a form and time frame that enable people to carry out their responsibilities. Information systems deal with both internally generated data and information about external events, activities, and conditions.

Communication involves providing an understanding of individual roles and responsibilities pertaining to internal control. Management is obligated to communicate the standards of measurement for evaluating operations. In other words, sufficient relevant communication promotes cognizance of internal control objectives so employees understand how their individual actions interrelate and recognize how and for what they will be held accountable.

e. *Monitoring* is a process established by management that assesses the quality of internal control performance over time.

Monitoring provides external oversight, either ongoing or in the form of independent checks of internal controls by management or other parties outside the process.

.104 Management should be committed to achieving strong controls through actions related to agency organization, personnel practices, communication, protection and uses of resources, and general leadership.