

January 2, 2023

ISBOA: Uniform Internal Control Standards

Indiana Code 5-11-1-27 requires each political subdivision to maintain a system of internal control to promote government accountability and transparency. As a result, the State Board of Accounts has developed the *Uniform Internal Control Standards for Indiana Political Subdivisions*, which provides a basis of common understanding to assist public sector managers in this effort.

This manual defines what an internal control system is and against what standards your system is measured when evaluated for sufficient controls.

Our goal is to work with you in partnership to achieve a system of controls that will be instrumental in ensuring that all public officials and employees serve the people with responsibility, integrity, loyalty, and efficiency.

Paul D. Joyce, CPA
State Examiner

Definition of effective internal control:

- An effective system of internal control requires that:
- Each of the 5 components and 17 principles are present and functioning and,
- The 5 components operate together in an integrated manner.
- A major deficiency exists if the county cannot conclude that these are met.

SBOA defines internal control as follows:

- Internal control is a process executed by officials and employees that is designed to provide reasonable assurance that the objectives of the political subdivision will be achieved.
- It is a basic element fundamental to the organization, rather than a list of added on tasks.
- It is an adaptable process that is a means to an end, not an end in itself.
- It is focused on the achievement of objectives.
- It is dependent on officials and employees for effective implementation.

Each of the five components of internal control is necessary to form a complete internal control process: Control Environment, Risk Assessment, Control Activities, Information and Communication, and Monitoring Activities.

If any of the five components is missing, true internal control is not achieved. Additionally, each component is comprised of recognized principle elements. To have a complete component, the principles associated with each component should be present.

There are three broad categories of objectives which help to clarify the objective setting process:

- Operations objectives which are designed to analyze operational and performance goals along with the effectiveness and efficiencies of operation, including the safeguarding of assets.

- Reporting objectives which are designed to consider both financial and non-financial information, internal and external to the unit, with an expectation of reliability, accountability, and transparency.
- Compliance objectives which are designed to assure adherence to laws and regulations.

These objective categories are interrelated and, therefore, may overlap.

17 Principles

Control Environment:

Principle 1. The oversight body and management demonstrate a commitment to integrity and ethical values.

Principle 2. The oversight body oversees the entity's internal control system.

Principle 3. Management establishes an organizational structure, assigns responsibility, and delegates authority to achieve the political subdivision's objectives.

Principle 4: Management demonstrates a commitment to attract, develop and retain competent individuals.

Principle 5: Management evaluates performance and holds individuals accountable for their internal control responsibilities.

Risk Assessment:

Principle 6: Management defines objectives clearly to enable the identification of risks and defines risk tolerances.

Principle 7: Management identifies, analyzes, and responds to risk related to achieving the defined objectives.

Principle 8: Management considers the potential for fraud when identifying, analyzing, and responding to risks.

Principle 9: Management identifies, analyzes, and responds to significant changes that could impact the internal control system.

Control Activities:

Principle 10. Management designs control activities to achieve objectives and respond to risks.

Principle 11. Management designs the political subdivision's information system and related control activities to achieve objectives and responds to risks.

Principle 12. Management implements control activities through policies.

Information and Communication:

Principle 13. Management uses quality information to achieve the political subdivision's objectives.

Principle 14. Management internally communicates the necessary quality information to achieve the political subdivision's objectives.

Principle 15. Management externally communicates the necessary quality information to achieve the entity's objectives.

Monitoring Activities:

Principle 16. Management establishes and operates monitoring activities to monitor the internal control system and evaluate the results.

Principle 17. Management remediates identified internal control deficiencies on a timely basis.

Indiana State Board of Accounts: Uniform Internal Control Standards:

<https://www.in.gov/sboa/library/uniform-compliance-guidelines/internal-control-manual/?pageSearch=Uniform%20Internal%20Control%20Standards>

GENERAL INFORMATION

Advance Payments

Compensation and any other payments for goods and services must not be paid in advance of receipts of the goods or services unless specifically authorized by law. Payments made for goods or services which are not received may be the personal obligation of the responsible official or employee.

Asset Ownership

Assets purchased must be titled in the name of the unit. In instances where multiple units are purchasing an asset jointly, the asset must be titled in accordance with an interlocal agreement between the units.

Audit Costs

Audit costs incurred because of poor records, nonexistent records, or any other inadequate bookkeeping practices, or because of theft or a shortage may be the personal obligation of the responsible official or employee.

Any audit costs paid without the prior approval of the SBOA when the SBOA has the statutory requirement to perform the audit of the unit may be considered a duplication of service and an unnecessary expense. These payments may be the personal obligation of the responsible official or employee.

Capital Assets

Every unit must have a capital assets policy that details the threshold at which an item is considered a capital asset. Every unit must have a complete detail listing of all capital assets owned which reflects their acquisition value. Capital Asset Ledger (Form 369) has been prescribed for this purpose. A complete physical inventory must be taken at least every two years, unless more stringent requirements exist, to verify account balances carried in the accounting records.

The list of capital assets should include the following categories:

Land

The records of each unit must include a description of land owned by the unit, its location, amount of acreage (if relevant), its acquisition date and the purchase price. If the purchase price is not available, appraised value may be used.

Infrastructure

A capital asset account for the cost of infrastructure must reflect the location and brief description identifying each road, bridge, tunnel, drainage system, storm water system, dam, or lighting system owned by the unit.

Buildings

A capital asset account for buildings must reflect the location of each building and the purchase price or construction cost and the cost of improvements, if applicable. If a building is acquired by gift, the account must reflect its appraised value at the time of acquisition.

Improvements Other than Buildings

A capital asset account must reflect the acquisition value of permanent improvements, other than buildings, which have been added to the land. Examples of such improvements are fences, retaining walls, sidewalks, and gutters. The improvements must be valued at the purchase or construction cost.

Equipment

Tangible property of a permanent nature (other than land, buildings, and improvements) must be inventoried. Examples include machinery, trucks, cars, furniture, office equipment including but not limited to computers and data processing equipment, and desks, safes, cabinets, books, cellphones, etc. The value of such items must be carried in the inventory at the purchase cost.

Construction Work in Progress

Where construction work has not been completed in the current reporting fiscal year, the cost of the project must be carried as "construction work in progress." When the project is completed, it must be placed on the inventory applicable to the assigned asset account.

Cash Disbursements

Disbursements, other than properly authorized petty cash disbursements, shall be by check or warrant, not by cash or other methods unless specifically authorized by law.

Collections of Amounts Due

Units have a responsibility to collect amounts owed to the unit pursuant to procedures authorized by law.

Compensation

All compensation and benefits paid to officials and employees must be included in the labor contract, salary ordinance, resolution, or salary schedule adopted by the governing body unless otherwise authorized by law. Compensation must be paid in a manner that will facilitate compliance with state and federal reporting requirements.

Compensation – Non-Employees

Payments for services provided by an organization must go directly to the organization and not to an individual employee of the organization. All payments for services must be supported by a written contract. Compensation must be paid in a manner that will facilitate compliance with state and federal reporting requirements.

Condition of Records

At all times, the manual and/or computerized records, subsidiary ledgers, control ledger, and reconciled bank balance must agree. If the reconciled bank balance is less than the subsidiary or control ledgers, the amount needed to balance may be the personal obligation of the responsible official or employee.

**INTERNAL CONTROL TRAINING CERTIFICATION
FOR ELECTED OFFICIALS, APPOINTEES, AND EMPLOYEES**

I, _____, the duly elected, appointed, or employed
(print name)

for _____ certify that I
(position or title) (political subdivision)

received the following training concerning internal controls standards and procedures as required
by Ind. Code § 5-11-1-27(g)(2):

Title of Training	Time Spent
_____	_____
_____	_____
_____	_____

Date: _____	_____ Signature
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* This certification may be printed, signed, and retained in paper form or electronically. If signed electronically, the elected official, appointee, or employee must designate his or her signature by typing the last four (4) digits of their Social Security number in the signature line.